Audited Financial Report and Reports Required by Uniform Guidance
As of and for the Years Ended June 30, 2018 and 2017

The University of Oklahoma Health Sciences Center

Independent Auditor's Report

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

Report on the Financial Statements
We have audited the accompanying financial statements of The University of Oklahoma Health Sciences Center (the Center), an organizational unit of the Regents of the University of Oklahoma (the Regents), which is a component unit of the State of Oklahoma, which comprise the statements of net position as of June 30, 2018 and 2017, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

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

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

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

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

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The University of Oklahoma Health Sciences Center as of June 30, 2018 and 2017, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Reporting Entity
As discussed in Note 1, the financial statements of the Center reporting entity are intended to present the financial position, changes in financial position and cash flows of only the activities of the Center. They do not purport to, and do not, present fairly the financial position of the Regents as of June 30, 2018 and 2017, the changes in its financial position or its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Change in Accounting Principle
As discussed in Notes 1 and 14 to the financial statements, the Center has adopted the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which has resulted in a restatement of the net position as of July 1, 2017. In accordance with GASB Statement No. 75, the 2017 financial statements have not been restated to reflect this change. Our opinion is not modified with respect to this matter.

Correction of Error
As discussed in Note 21 to the financial statements, certain errors resulting in an overstatement of net position previously reported for restricted, expendable and an understatement of net position previously reported for unrestricted purposes as of June 30, 2017, were discovered by management of the Center during the current year. Accordingly, amounts reported for restricted, expendable net position and unrestricted net position have been restated in the 2017 financial statements now presented. Our opinion is not modified with respect to that matter.

Other Matters
Required Supplementary Information
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 12 and the required supplementary information on pages 64 through 66 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information
Our audit was conducted for the purpose of forming an opinion on the financial statements of the Center. The schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is not a required part of the financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*
In accordance with *Government Auditing Standards,* we have also issued a report dated October 22, 2018 on our consideration of the Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Center's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control over financial reporting and compliance.

Eide Bailly LLP

Oklahoma City, Oklahoma
October 22, 2018

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 ended June 30, 2018 and 2017. Management has prepared the financial statements and the related footnote disclosures along with this discussion and analysis.

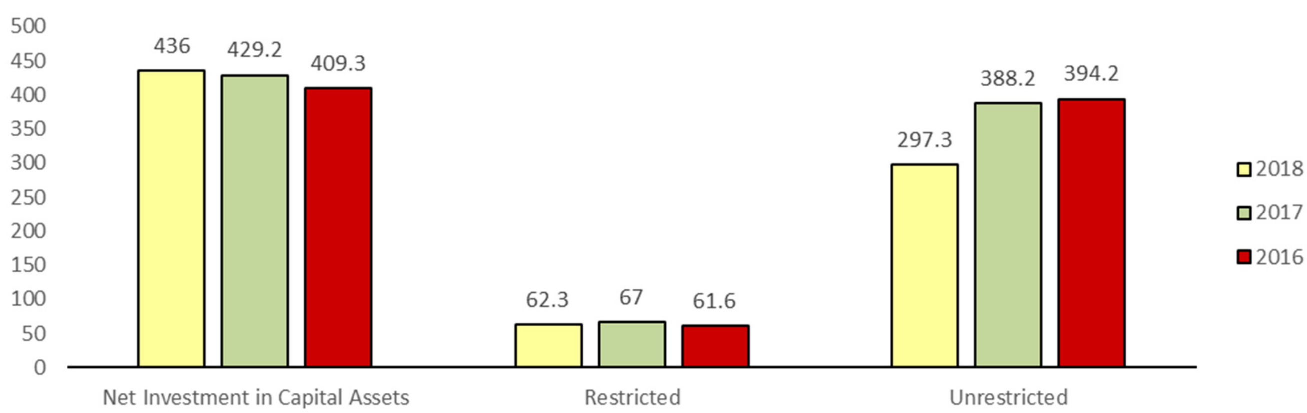
Financial Highlights

2018
The Center's financial position, as a whole, improved during the fiscal year ended June 30, 2018. Net position increased approximately $5.4 million or .6 percent over the previous year ending net position (before cumulative effect of change in accounting principle – GASB 75). After the cumulative effect of change in accounting principle, net position reflected an $88.8 million decrease. As a result, the adjusted change in net position reflected an increase in net investment in capital assets of $6.8 million, a decrease in restricted net position of $4.7 million, and a decrease in unrestricted net position of $90.9 million.

2017
The Center's financial position, as a whole, improved during the fiscal year ended June 30, 2017. Net position increased approximately $19.3 million or 2.2 percent over the previous year. The change resulted from increases in net investment in capital assets of $19.9 million and restricted net position of $5.4 million. Unrestricted net position decreased by $6.0 million.

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

Net Position (in Millions)



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

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

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

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

Condensed Statements of Net Position, June 30 (In Millions)

	2018		*Restatement* 2017		*Restatement* 2016
Assets					
Current assets	$ 725.4		$ 737.7		$ 737.6
Capital assets, net	590.8		592.4		581.2
Other noncurrent assets	202.2		175.8		160.7
Total assets	$ 1,518.4		$ 1,505.9		$ 1,479.5
Deferred Outflows of Resources	$ 76.2		$ 101.6		$ 28.5
Liabilities					
Current liabilities	$ 140.0		$ 134.4		$ 135.2
Noncurrent liabilities	620.6		580.0		484.3
Total liabilities	$ 760.6		$ 714.4		$ 619.5
Deferred Inflows of Resources	$ 38.4		$ 8.7		$ 23.4
Net Position					
Net investment in capital assets	$ 436.0		$ 429.2		$ 409.3
Restricted	62.3		67.0		61.6
Unrestricted	297.3		388.2		394.2
Total net position	$ 795.6		$ 884.4		$ 865.1
Increase (Decrease) in Net Position		$ (88.8)		$ 19.3	

Condensed Statements of Revenues, Expenses, and Changes in Net Position, June 30 (In Millions)

	2018	2017	2016
Operating revenues	$ 911.4	$ 888.4	$ 881.1
Operating expenses	1,041.1	1,016.2	973.7
Operating loss	(129.7)	(127.8)	(92.6)
Net nonoperating revenues	124.8	135.8	128.3
Other revenues, expenses and gains or losses	10.3	11.3	17.8
Net change in net position	5.4	19.3	53.5
Net Position at beginning of year	884.4	865.1	811.6
Restatement-Implementation of GASB 75	(94.2)	-	-
Net Position at end of year	$ 795.6	$ 884.4	$ 865.1

The following summarizes the Center's operating revenues for the years ended June 30 (In Millions):

	2018	2017	2016
Operating Revenues:			
Tuition and fees	$ 62.7	$ 62.9	$ 61.4
Patient care	422.8	395.7	397.2
Pharmaceutical sales	88.1	76.7	69.6
Grants and contracts	276.3	302.2	307.1
Sales and services of educational activities	1.9	1.7	1.6
Auxiliary enterprises	36.0	36.4	31.2
Other	23.6	12.8	13.0
Total operating revenues	$ 911.4	$ 888.4	$ 881.1

Changes in operating revenues included the following:

2018
Student tuition and fees revenue had a decrease of $.2 million due to a slight decrease in enrollment in fiscal year 2018.

Patient care increased over the past year with additional revenues of $27.2 million. This was due to increased patient volume and procedures performed within the OU Physicians clinical practice, substantially in the infusion clinic at the Stephenson Cancer Center and Pediatrics.

Pharmaceutical sales increased $11.4 million or 14.9 percent. This was primarily due to the opening of a retail pharmacy in the Stephenson Cancer Center in fiscal year 2018.

Federal grants and contracts decreased by $7.2 million due to funding losses in various areas. State grants and contracts decreased during 2018 by $18.6 million. This was due to a decrease in Graduate Medical Education support as the program transitions to a different funding model. Private grants and contracts remained stable during the year.

Sales and services of auxiliary enterprises remained steady over the past year with a modest decrease in revenues of $.4 million.

Other revenues increased $10.8 million due to a variety of factors. During 2018, this category included unusual receipts such as a statutory surplus return from APIC of $5.7 million, the sale of the infusion clinic drug inventory for $2.9 million, and the one-time receipt of $2.6 million from the University Hospitals Authority and Trust for use of clinical space.

2017
Student tuition and fees revenue increased 2.5 percent or $1.5 million in fiscal year 2017.

Patient care experienced a slight decrease of $1.5 million.

Pharmaceutical sales increased by $7.1 million or 10.2 percent. This resulted from increased retail pharmacy activity.

State grants and contracts decreased during 2017 by $5.1 million. This was due to decreased support from the University Hospitals Authority and Trust. Private grants and contracts increased during the year by $2.3 million, offsetting a decrease in Federal grants and contracts of $2.1 million.

Sales and services of auxiliary enterprises increased $5.2 million mainly from lease revenues received from the newly purchased Oklahoma City Clinics.

Other revenues remained stable during the year.

The following summarizes the Center’s operating expenses for the years ended June 30 (In Millions):

	2018	2017	2016
Operating Expenses:			
Compensation and benefits	$ 682.8	$ 670.9	$ 642.5
Contractual services	81.5	82.4	81.8
Supplies and materials	168.0	139.7	128.5
Depreciation	28.4	28.5	27.9
Utilities	13.7	12.5	12.3
Communications	9.7	11.2	10.4
Scholarships	2.5	2.4	2.4
Other	54.5	68.6	67.9
Total operating expenses	$ 1,041.1	$ 1,016.2	$ 973.7

Changes in operating expenses were the result of the following:

2018
Compensation and benefits expense increased slightly by $11.9 million or 1.8 percent during fiscal year 2018.

Supplies and materials expense increased $28.3 million. This was due to the increased cost of pharmaceutical drugs used in patient care, particularly cancer fighting drugs.

Other expenses decreased by $14.1 million due to a reduction in Graduate Medical Education match payments.

2017
Compensation and benefits expense increased 4.4 percent or $28.4 million during fiscal year 2017. This was due to an increase in pension expense resulting from the reporting requirements of GASB 68 for the Oklahoma Teachers Retirement System (OTRS) pension plan.

Supplies and materials expense increased $11.2 million. This was due to the increased cost of pharmaceutical drugs used in patient care, particularly cancer fighting drugs.

Communications expense increased 7.4 percent or $.8 million for the year. This was due to wiring and equipment purchases for the new College of Medicine Andrews Academic Tower.

The following summarizes the Center's non-operating revenues and expenses for the years ended June 30 (In Millions):

	2018	2017	2016
Nonoperating Revenue:			
State appropriations	$ 74.6	$ 80.1	$ 85.2
On-behalf payments	14.2	14.0	14.0
Private gifts	12.5	13.3	13.3
Interest on indebtedness	(7.2)	(8.2)	(8.8)
Investment income	13.8	18.8	8.9
Endowment income	16.9	17.8	15.7
Net nonoperating revenue	$ 124.8	$ 135.8	$ 128.3

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

2018
State appropriations decreased during 2018 by 6.9 percent or $5.4 million, due to a shortfall in the State's general revenue.

On-behalf payments remained steady from the prior year.

Private gifts decreased 6 percent or $.8 million, due to a decrease in gifts received from St. John Health System to support graduate medical education.

Investment income decreased 26.2 percent or $5.0 million for the year. This was largely due to a prior year increase in investments held in equity positions. Fiscal year 2018 did not include a similar transaction.

Endowment income decreased slightly by $.9 million, due to a small decrease in the reimbursement of expenditures by endowed chairs.

2017
State appropriations decreased during 2017 by 6 percent or $5.1 million, due to a shortfall in the State's general revenue.

On-behalf payments remained steady from the prior year.

Private gifts remained steady from the prior year.

Investment income had a significant percentage increase of 110.8 percent or $9.8 million for the year. This was a result of an increase in endowment investments and also from investments held in equity positions.

Endowment income increased 13.4 percent or $2.1 million for the year. This was due to a large increase in new chair appointments and also increased endowment activity among established chairs.

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 years ended June 30:

Condensed Statements of Cash Flows for the Years Ended June 30 (In Millions)

	2018	2017	2016
Cash provided (used) by:			
Operating activities	$ (85.7)	$ (62.0)	$ (67.9)
Noncapital financing activities	104.3	109.4	111.2
Capital and related financing activities	(32.7)	(43.1)	(16.4)
Investing activities	(19.9)	5.9	(35.2)
Net change in cash	(34.0)	10.2	(8.3)
Cash, beginning of the year	608.8	598.6	606.9
Cash, end of year	$ 574.8	$ 608.8	$ 598.6

2018
The Center's overall liquidity declined during the year, with a net decrease to cash of $34 million. Cash used in operating activities totaled $85.7 million, an increase of approximately $23.7 million over the prior year. The use of cash was due to overall revenues not being sufficient to offset increased compensation, benefits, contractual services and other operating costs. Significant cash flow increases were related to changes in patient revenues ($16 million), private grants and contracts ($2.6 million), other additions ($7.8 million), and pharmacy sales ($9 million). There was a significant decrease in cash flows from federal grants and contracts ($9.1 million) and state grants and contracts ($18.9 million)

Overall, cash provided by noncapital and related activities was $104.3 million, a net decrease of approximately $5.1 million over the prior year. This decrease in cash flows was primarily due to lower State appropriations received ($5.5 million). The positive change in cash flows from endowment income ($2.4 million) was offset by a negative change in private gifts ($2.1 million).

Cash flows used in connection with capital and related financing activities totaled $32.7 million, a decrease of $10.4 million compared to the prior year. This was a result of a decrease in cash used for the purchase of capital assets ($12.6 million). In addition, cash provided by State school land funds decreased ($1 million).

Cash used in investing activities totaled $19.9 million, an increase of $25.8 million. The increase was substantially the result of cash used for the purchase of investments ($28.3 million), and a decrease of cash received from investment income ($1.5 million). This was partially offset by an increase in proceeds received from the sale of investments ($4 million).

2017
The Center's overall liquidity increased during the year, with a net increase to cash of $10.2 million. Cash used in operating activities totaled $62 million, a decrease of approximately $5.9 million over the prior year. The use of cash was due to overall revenues not being sufficient to offset increased compensation, benefits, contractual services and other operating costs. Significant cash flow increases were related to changes in patient revenues ($10 million), state grants and contracts ($9 million), sales and services of auxiliary enterprises ($6.2 million), pharmacy sales ($4 million), and a slight increase in tuition and fees ($1.9 million).

Overall, cash provided by noncapital and related activities was $109.4 million, a net decrease of approximately $1.8 million over the prior year. This decrease in cash flows was primarily due to lower State appropriations received ($5.1 million). There was an increase in endowment income ($2.5 million).

Cash flows used in connection with capital and related financing activities totaled $43.1 million, an increase of $26.7 million compared to the prior year. This was a result of an increase in cash used for the purchase of capital assets ($18.7 million). In addition, cash provided by private gifts for capital projects decreased ($8.7 million).

Cash provided by investing activities totaled $5.9 million, an increase of $41.1 million, primarily the result of a decrease in the purchase of investments ($38.3 million), and an increase in proceeds received from investment income ($2.9 million).

Capital Asset and Debt Administration

The following summarizes the Center's Capital Assets at June 30:

Capital Assets, Net, at Year-End (In Millions)

	2018	2017	2016
Art	$ 1.3	$ 0.8	$ 0.7
Land and infrastructure	38.4	37.3	37.1
Construction in-progress	9.1	7.7	2.2
Buildings	481.5	496.1	492.8
Furniture, fixtures, and equipment	59.3	49.0	46.4
Library materials	1.2	1.5	2.0
Totals	$ 590.8	$ 592.4	$ 581.2

2018
At June 30, 2018, the Center had approximately $590.8 million invested in capital assets, net of accumulated depreciation of $365.1 million. Depreciation charges for the current year remained steady at $28.4 million.

2017
At June 30, 2017, the Center had approximately $592.4 million invested in capital assets, net of accumulated depreciation of $342.4 million. Depreciation charges for the current year totaled $28.5 million compared to $27.9 million in the prior year.

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

Outstanding Debt, at Year-End (In Millions)

	2018	2017	2016
General revenue bonds	$ 136.0	$ 138.5	$ 143.4
Auxiliary facility revenue bonds	1.7	2.5	3.2
Lease obligations	18.5	21.6	24.6
Totals	$ 156.2	$ 162.6	$ 171.2

2018
At fiscal year-end 2018, the Center had approximately $156.2 million in outstanding debt, a decrease of approximately $6.4 million over the prior year.

The Center advance refunded one bond series during 2018, resulting in a total reduction of $4.5 million in debt service payments. Additional debt repayments of $8.8 million were made during the year. More detailed information related to the Center's long-term liabilities is presented in Note 12 to the financial statements.

2017
At fiscal year-end 2017, the Center had approximately $162.6 million in outstanding debt, a decrease of approximately $8.6 million over the prior year.

The Center incurred no new debt during 2017. Debt repayments of $8.6 million were made during the year. More detailed information related to the Center's long-term liabilities is presented in Note 12 to the financial statements.

Economic Outlook
The Center's economic position is closely related to its role as the state's primary resource for the training of health care professionals. Future success is 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. While support in the Center's mission remains strong, declines in the State's general revenue resulted in a 6.8 percent decrease in appropriations for fiscal year 2018.

Despite the recent downturn in the State's economy, the Center's overall financial position enables it to provide consistent levels of service to students, patients, researchers, and citizens state-wide. The most important factor impacting the Center's economic outlook is the operation of its professional practice plans. The professional practice plans continue to contribute significantly to the Center's financial performance and are expected to begin a period of modest growth. A positive factor supporting growth of the Center is focused around recent events with the Center's affiliated teaching hospitals (OU Medical System). During the third quarter of 2018, a newly formed not-for-profit corporation, OU Medicine, Inc. (OUMI) purchased Health Services of Oklahoma's (HCA) interest in OU Medical System. Currently OUMI has initiated construction of a new hospital bed tower at the OU Medical Center, satisfying needed capacity; this in turn enhances the Center's ability to fulfill its mission of teaching, research, and patient care.

Assets	2018	2017
	(In Thousands)	
Current Assets		
Cash and cash equivalents	$ 549,945	$ 576,113
Restricted cash and cash equivalents	15,723	13,499
Accounts receivable, net of allowances	153,277	138,005
Inventories and supplies	3,260	4,960
Loans to students, net of allowance for uncollectible loans	1,019	1,048
Deposits and prepaid expenses	2,203	4,062
Total current assets	725,427	737,687
Noncurrent Assets		
Restricted cash and cash equivalents	9,168	19,215
Endowment investments	44,650	43,302
Other long-term investments	136,219	99,916
Investments in real estate	3,476	6,499
Loans to students, net	5,709	5,600
Deposits and prepaid expenses	1,278	1,279
Net OPEB	1,673	-
Capital assets, net	590,808	592,473
Total noncurrent assets	792,981	768,284
Total assets	$ 1,518,408	$ 1,505,971
Deferred Outflows of Resources		
Deferred outflow - pensions	$ 67,941	$ 101,556
Deferred outflow - OPEB	6,259	-
Deferred charge on debt refunding	1,998	-
Total deferred outflows of resources	$ 76,198	$ 101,556

	2018	*Restatement* 2017
Liabilities	(In Thousands)	
Current Liabilities		
Accounts payable and accrued expenses	$ 82,346	$ 77,497
Unearned revenue	13,089	9,234
Accrued interest payable	3,273	3,598
Deposits held in custody for others	1,536	1,865
Long-term liabilities, current portion:		
Accrued compensated absences	30,363	28,673
Total OPEB liability	-	4,688
Capital lease payable	3,245	3,120
Revenue bonds payable	6,185	5,691
Total current liabilities	140,037	134,366
Noncurrent Liabilities		
Accrued compensated absences	5,783	6,294
Net pension liability	255,733	315,968
Total OPEB liability	204,856	96,748
Federal loan program contributions refundable	7,424	7,212
Capital lease payable	15,234	18,450
Revenue bonds payable	131,530	135,311
Total noncurrent liabilities	620,560	579,983
Total liabilities	$ 760,597	$ 714,349
Deferred Inflows of Resources		
Deferred inflow - pensions	$ 32,597	$ 8,062
Deferred inflow - OPEB	5,186	-
Deferred credit on OCIA lease restructure	579	627
Total deferred inflows of resources	$ 38,362	$ 8,689
Net Position		
Net investment in capital assets	$ 436,033	$ 429,179
Restricted for:		
Nonexpendable	28,592	28,592
Expendable		
Education and general	9,280	8,760
Capital projects	10,566	18,012
Debt service	13,892	11,671
Unrestricted	297,284	388,275
Total net position	$ 795,647	$ 884,489

	2018	2017
	(In Thousands)	
Operating Revenues		
Student tuition and fees (net of scholarship allowances of $4,846 and $4,248 for 2018 and 2017, respectively)	$ 62,721	$ 62,888
Patient care (net of provisions for contractual, bad debt and other adjustments of $612,196 and $592,313 for 2018 and 2017, respectively)	422,807	395,656
Pharmaceutical sales	88,074	76,662
Federal grants and contracts	74,111	81,350
State grants and contracts	65,182	83,809
Private grants and contracts	136,999	137,089
Sales and services of educational activities	1,911	1,661
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 2004)	6,915	5,979
Other	29,044	30,389
Other revenues (including $185 and $169 from interest on student loans for 2018 and 2017, respectively)	23,701	12,943
Total operating revenue	911,465	888,426
Operating Expenses		
Compensation and benefits	682,793	670,864
Contractual services	81,515	82,445
Supplies and materials	168,005	139,742
Depreciation	28,410	28,528
Utilities	13,729	12,482
Communication	9,701	11,168
Scholarships	2,547	2,432
Other	54,441	68,583
Total operating expenses	1,041,141	1,016,244
Operating Loss	(129,676)	(127,818)
Nonoperating Revenues and (Expenses)		
State appropriations	74,589	80,078
On-behalf payments	14,204	13,986
Private gifts	12,546	13,346
Interest on indebtedness	(7,191)	(8,152)
Net investment income	13,780	18,735
Endowment income	16,892	17,822
Net nonoperating revenues and (expenses)	124,820	135,815
Income (loss) before other revenues, (expenses), gains, or (losses)	(4,856)	7,997

	2018	2017
	(In Thousands)	
Other revenue, (expenses), gains, or (losses):		
State grants and contracts for capital projects	$ -	$ 400
State appropriations for capital projects	6,196	5,843
Private gifts for capital projects	537	488
State school land funds	3,541	4,612
Total other revenue, (expenses), gains, or (losses)	10,274	11,343
Change in net position	5,418	19,340
Net Position, Beginning of Year	884,489	865,149
Restatement - Implementation of GASB 75	(94,260)	-
Net Position, End of Year	$ 795,647	$ 884,489

	2018	2017
	(In Thousands)	
Operating Activities		
Tuition and fees	$ 62,574	$ 63,273
Patient revenues	426,241	410,232
Pharmacy sales	82,678	73,678
Federal grants and contracts	73,599	82,792
State grants and contracts	65,170	84,100
Private grants and contracts	137,931	135,323
Sales and services of auxiliary enterprises	28,109	30,911
Sales and services of educational activities	1,817	1,617
Steam and chilled water plant revenues	6,917	5,916
Interest on loans receivable	185	169
Other additions	20,583	12,770
Loans issued to students	(1,249)	(866)
Collection of loans	1,165	928
Compensation and benefits	(658,329)	(643,845)
Contractual services	(82,411)	(81,934)
Supplies and materials, utilities, communications, scholarships and fellowships, other and deposits held in custody	(250,698)	(237,087)
Net Cash used for Operating Activities	(85,718)	(62,023)
Noncapital Financing Activities		
State appropriations	74,589	80,078
Endowment income	18,140	15,736
Private gifts	11,434	13,580
Direct loan receipts	66,042	65,012
Direct loan disbursements	(66,042)	(65,012)
Net increase to Federal loan program contributions refundable	212	102
Net Cash from Noncapital Financing Activities	104,375	109,496

	2018	2017
	(In Thousands)	
Capital and Capital Related Financing Activities		
State grants and contracts for capital projects	$ -	$ 264
State appropriations for capital projects	4,981	5,843
Private gifts for capital projects	537	681
Purchases of capital assets	(27,941)	(40,573)
Proceeds from issuance of bonds payable	46,739	-
Principal paid on capital debt and leases	(53,083)	(6,357)
Interest paid on capital debt and leases	(7,484)	(7,564)
Receipt of State school land funds	3,541	4,612
Net Cash used for Capital and Capital Related Financing Activities	(32,710)	(43,094)
Investing Activities		
Investment income	9,778	11,299
Proceeds from sales and maturities of investments	105,284	1,277
Purchase of investments	(135,000)	(6,688)
Net Cash from (used for) Investing Activities	(19,938)	5,888
Net Change in Cash and Cash Equivalents	(33,991)	10,267
Cash and Cash Equivalents, Beginning of Year	608,827	598,560
Cash and Cash Equivalents, End of Year	$ 574,836	$ 608,827
Reconciliation of Cash and Cash Equivalents to the Statements of Net Position		
Current assets		
Cash and cash equivalents	$ 549,945	$ 576,113
Restricted cash and cash equivalents	15,723	13,499
Noncurrent assets		
Restricted cash and cash equivalents	9,168	19,215
Total cash and cash equivalents	$ 574,836	$ 608,827

	2018	2017
	(In Thousands)	
Reconciliation of Operating Loss to Net Cash used for Operating Activities		
Operating loss	$ (129,676)	$ (127,818)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation expense	28,410	28,528
Loss on disposal of capital assets	1,260	1,100
On-behalf contribution related to pensions	10,963	10,860
Change in assets and liabilities:		
Accounts receivable	(13,925)	12,523
Inventories and supplies	1,700	(1,803)
Loans to students	(80)	59
Deposits and prepaid expenses	1,860	(1,266)
Deferred outflows related to pensions and OPEB	27,356	(73,048)
Accounts payable and accrued expenses	4,736	(1,861)
Unearned revenue	3,855	(368)
Compensated absences	1,179	782
Deferred inflows related to pensions and OPEB	29,721	(14,624)
Total OPEB liability	7,487	6,510
Net pension liability	(60,235)	98,225
Deposits held in custody for others	(329)	178
Net Cash used for Operating Activities	$ (85,718)	$ (62,023)
Supplemental Schedule of Noncash Investing and Financing Activities		
On-behalf interest paid by OCIA	$ 744	$ 825
On-behalf principal payments made by OCIA	2,497	2,301
Amortization of bond insurance cost	2	2
Amortization of bond discount/premium	(20)	(44)
Amortization of ODFA discount	25	2
Capitalization of interest	64	129

Note 1 - Summary of Significant Accounting Policies

Nature of the Organization

The University of Oklahoma Health Sciences Center (the Center) is a comprehensive university operating under the jurisdiction of the Board of Regents of the University of Oklahoma (the Board of Regents) and the Oklahoma State Regents for Higher Education (the State Regents).

Reporting Entity

The Center is one of the four institutions of higher education in Oklahoma that comprise the Regents of the University of Oklahoma, which in turn is part of the Higher Education Component Unit of the State of Oklahoma.

The Board of Regents has constitutional authority to govern, control and manage the Regents of the University of Oklahoma, which consists of: the Center, The University of Oklahoma Norman Campus (the Norman Campus), Rogers State University, and Cameron University. This authority includes but is not limited to the power to designate management; the ability to significantly influence operations; acquire and take title to real and personal property in its name; and appoint or hire all necessary officers, supervisors, instructors, and employees for member institutions.

Accordingly, the Center is considered an organizational unit of the Regents of the University of Oklahoma reporting entity for financial reporting purposes due to the significance of its legal, operational and financial relationships with the Board of Regents, as defined in Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards.

The Center consists of seven academic colleges, including Colleges of Medicine, Public Health, Allied Health, Dentistry, Nursing, and Pharmacy, and also the Graduate College.

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 System. The OU Medical System includes OU Medical Center, OU Medical Center Edmond, and The Children's Hospital. The financial position and operations of the PPPs are included in the accompanying financial statements of the Center.

For financial reporting purposes, the Center has included all funds, organizations, agencies, boards, commissions and authorities within the reporting entity defined above. The Center has also considered all potential component units for which it is financially accountable and other organizations for which the nature of significance of their relationship with the Center are such that the exclusion would cause the Center's financial statements to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Center to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Center. The Center does not have a component unit which meets the GASB criteria.

Although the Center is a beneficiary of the University of Oklahoma Foundation, Inc. (Foundation), the Foundation is independent of the Center in all respects. The Foundation is not a subsidiary or affiliate of the Center and is not directly or indirectly controlled by the Center or the Board of Regents. Assets that the Center places with the Foundation for investment, together with investment income, are held, administered and distributed to the Center under the direction and supervision of the Foundation based upon Center policies and instructions. With the exception of assets that the Center and others have placed with the Foundation for investment (and the investment income from such assets), the assets held by the Foundation are the exclusive property of the Foundation. The Center is not accountable for, and does not have ownership of, any of the financial and capital resources of the Foundation. Neither the Center nor the Board of Regents has the power or authority to mortgage, pledge or encumber the assets of the Foundation. The trustees of the Foundation are entitled to make all decisions regarding the business and affairs of the Foundation, including, without limitation, distributions made to the Center. Under state law, neither the principal nor income generated by the assets of the Foundation can be taken into consideration in determining the amount of state-appropriated funds allocated to the Center. Third parties dealing with the Center, Board of Regents, the Oklahoma State Regents for Higher Education and the State of Oklahoma (or any agency thereof) should not rely upon any financial information contained herein about the Foundation for any purpose without consideration of all of the foregoing conditions and limitations.

Financial Statement Presentation

The GASB is the recognized standard-setting body for accounting principles generally accepted in the United States of America (U.S. GAAP) applicable to public sector institutions of higher education. The Center applies all applicable GASB pronouncements.

Basis of Accounting

The financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting, in accordance with U.S. GAAP. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All intra-agency transactions have been eliminated.

Cash Equivalents

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

Investments

The Center accounts for its investments at fair value. Certain investments held by the Foundation are pooled investments (see Note 2). Ownership interest in those pools are unitized. The Foundation calculates the net asset value per unit monthly based on the value of the underlying assets in each pool. New investments and withdrawals from those pools for the benefit of the unit holders are transmitted at the net asset value per unit on the monthly valuation dates. With the exception of alternative investments, the pooled funds are held in the custody of the Bank of New York-Mellon. Changes in unrealized gain (loss), if any, on the carrying value of the investments are reported as a component of net investment income in the statements of revenues, expenses, and changes in net position.

June 30, 2018 and 2017 (in thousands)

Equity holdings for which there is no traded market price are carried at historical cost instead of fair value and are evaluated annually for impairment. Changes in fair value are reported as a component of investment income in the statements of revenues, expenses, and changes in net position.

Accounts Receivable

Accounts receivable consists of tuition and fee charges to students; auxiliary enterprise services provided to students, faculty, and staff; and amounts due for services provided through the PPPs and clinics. Amounts due from 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 are also included. Accounts receivable are recorded net of contractual adjustments and estimated uncollectible amounts. Payments on patient receivables are allocated to the specific claims identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

The Center determines its uncollectible balances and contractual 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.

The Center grants credit without collateral to its patients. The following summarizes the estimated percentage of net patient accounts receivable from all payors as of June 30, 2018 and 2017:

	2018	2017
Medicare	18%	20%
Medicaid	22%	22%
Other third-party and commercial payors	36%	36%
Other, including self pay	24%	22%
	100%	100%

Medical Malpractice Coverage Claims

The Center is covered for medical malpractice risks under a medical malpractice insurance policy (See Note 15). The Center pays a fixed premium for coverage of malpractice claims the Center might potentially incur.

Restricted Cash and Cash Equivalents

Cash and cash equivalents that are externally restricted to make debt service payments, to maintain sinking or reserve funds, or to purchase capital or other noncurrent assets are classified as restricted in the statements of net position. Restricted cash and cash equivalents available to be used for operating expenses, the repayment of liabilities classified as current or other expenditures within a year are classified as current assets.

Inventories and Supplies

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.

Contributions

From time to time, the Center receives contributions from individuals and private organizations. Revenues from contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted for a specific operating purpose are reported as non-operating revenues. Amounts restricted to capital acquisitions are reported as capital grants, gifts, and donations.

Endowments are provided to the Center on a voluntary basis by individuals and private organizations. Permanent endowments require that the principal or corpus of the endowment be retained in perpetuity. If a donor has not provided specific instructions, the net appreciation of the investments of endowment funds are recorded with investment income in non-operating revenue.

Capital Assets

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

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

Costs incurred during construction of long-lived assets are recorded as construction in progress and are not depreciated until placed in service. The Center capitalizes interest as a component of capital assets constructed for its own use. In 2018, total interest incurred was $7,191, of which $64 was capitalized. In 2017, total interest incurred was $8,281, of which $129 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 position. There were no events or changes in conditions requiring recognition of an impairment loss in either 2018 or 2017.

Investments in Real Estate

Real estate held for investment is reported at fair value and changes in fair value are reported as a component of net investment income in the statements of revenues, expenses, and changes in net position.

Unearned Revenues

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

Compensated Absences

Employees' compensated absences are accrued when earned. The obligation at the end of the year and expenditure incurred during the year are recorded as accrued compensated absences in the statements of net position and as a component of compensation and benefit expense in the statements of revenues, expenses, and changes in net position. The current portion of the obligation is determined by calculating a five year average annual usage value and applying it to the total obligation.

Estimated Self Insurance Reserves

The Center provides for self-insurance reserves for estimated incurred but not reported claims for its employee health plan, workers' compensation program, unemployment compensation insurance program, and student health insurance. These reserves, which are included in accounts payable and accrued expenses on the statements of net position, are estimated based upon historical submission and payment data, cost trends, utilization history, and other relevant factors. Adjustments to reserves are reflected in the operating results in the period in which the change in estimate is identified.

Noncurrent Liabilities

Noncurrent liabilities include principal amounts of revenue bonds payable and capital lease obligations with contractual maturities greater than one year; federal loans liability; amounts for accrued compensated absences; total other postemployment benefits (OPEB) liability; net pension liability; and other liabilities that will not be paid within the next fiscal year. Bond issuance costs are expensed as incurred regardless of whether they are included in bond proceeds.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about and additions to/deductions from the fiduciary net position of the Oklahoma Teacher's Retirement System (OTRS) and other plans have been determined on the same basis as reported by OTRS and other plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments held by OTRS and other plans are reported at fair value by OTRS and other plans.

Deferred Outflows of Resources

Deferred outflows are the consumption of net position by the Center that are applicable to a future reporting period. The Center has deferred outflows of resources related to pensions, total other postemployment benefits (OPEB) liability; and refunding of debt. The deferred outflows related to pensions and OPEB are recognized as a component of compensation expense in the following year, or over the expected remaining service life of the plan. The deferred outflows related to the refunding of debt are recognized as a component of interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter.

Deferred Inflows of Resources

Deferred inflows are the acquisition of net position by the Center that are applicable to a future reporting period. The Center has deferred inflows of resources related to an OCIA lease restructure. The OCIA deferred inflows of resources are recognized as a component of interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter. There were also deferred inflows related to pensions and OPEB. The deferred inflows related to pensions and OPEB are recognized as a component of compensation expense. Pension and OPEB deferred inflows are recognized over five years, or the expected remaining service life of the plan.

Net Position

The Center's net position is classified as follows:

> *Net investment in capital assets* represents the Center's investment in capital assets (net of accumulated depreciation) and related deferred outflows reduced by outstanding debt obligations and related deferred inflows of resources related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of net investment in capital assets.
>
> *Restricted net position—nonexpendable* consists of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.
>
> *Restricted net position—expendable*: includes resources in which the Center is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties or enabling legislation.
>
> *Unrestricted net position* represents resources derived from student tuition and fees, state appropriations, sales and services of educational departments, and patient service revenue. 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 non-operating revenues according to the following criteria:

> *Operating revenues* include activities that have the characteristics of exchange transactions, such as student tuition and fees, net of scholarship allowances; patient revenues; sales and services of educational activities; sales and services of auxiliary enterprises; most federal; state, and local grants and contracts; and interest on student loans.
>
> *Nonoperating revenues* include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, and other revenue sources that are defined as non-operating revenues by GASB, such as state appropriations and investment income.

Scholarship Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship allowances in the statements of revenues, expenses, and changes in net position. Scholarship allowances are the difference between the stated charge for goods and services provided by the Center and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other federal, state, or nongovernmental programs, are recorded as either operating or non-operating 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). These amounts are immaterial to the financial statements of the Center.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures; accordingly, actual results could differ from those estimates.

New Accounting Pronouncements Adopted In Fiscal Year 2018

The Center adopted new accounting pronouncements during the year ended June 30, 2018, as follows:

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB No. 75) was issued in June 2015 and replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* and GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It addresses accounting and financial reporting for OPEB and establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, it identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

GASB Statement No. 85, *Omnibus 2017* (GASB No. 85) was issued March 2017 and addresses practice issues that have been identified during implementation and application of certain GASB Statements. This statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, pensions and OPEB.

The Center recorded the cumulative effect of adopting GASB No. 75 and 85 which resulted in a $94,260 adjustment to net position as of July 1, 2017.

New Accounting Pronouncements Issued Not Yet Adopted

The GASB has also issued several new accounting pronouncements which will be effective to the Center in subsequent years. A description of the new accounting pronouncements and the fiscal year in which they are effective are described below:

GASB Statement No. 83, *Certain Asset Retirement Obligations*, was issued November 2016 and addresses the accounting and financial reporting for certain asset retirement obligations (AROs). This statement establishes criteria for determining the timing and pattern of recognition of a liability and corresponding deferred outflow of resources for AROs. It requires the measurement of an ARO to be based on the best estimate of the current value of outlays expected to be incurred. The deferred outflow of resources associated with an ARO will be measured at the amount of the corresponding liability upon initial measurement and generally recognized as an expense over the estimated useful life of the asset. This statement also requires disclosures of information about the nature of the AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. The requirements of this Statement are effective for the Center’s fiscal year beginning July 1, 2018. Earlier application is encouraged.

GASB Statement No. 84, *Fiduciary Activities* was issued January 2017 and improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This statement establishes criteria for identifying fiduciary activities for all state and local governments. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. An exception to that requirement is provided for a business-type activity that normally expects to hold custodial assets for three months or less. This statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. The requirements of this statement are effective for the Center's fiscal year beginning July 1, 2019. Earlier application is encouraged.

GASB Statement No. 87, *Leases*, was issued June 2017 and improves accounting and financial reporting for leases by governments. This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this statement are effective for the Center's fiscal year beginning July 1, 2020. Earlier application is encouraged.

GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, was issued April 2018 and improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This statement defines debt as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. The requirements of this statement are effective for the Center's fiscal year beginning July 1, 2018. Earlier application is encouraged.

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, was issued June 2018 and enhances the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period, and simplifies accounting for interest cost incurred before the end of a construction period. This statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, these interest costs will not be included in the historical cost of a capital asset reported in a business-type activity. The requirements of this statement are effective for the Center's fiscal year beginning July 1, 2020. Earlier application is encouraged.

The Center is currently evaluating the impact that these new standards will have on its financial statements.

Note 2 - Deposits and Investments

Deposits – Custodial Credit Risk

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 participate 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, 2018 and 2017, the carrying amount of the Center's deposits with the State Treasurer and other financial institutions were $574,836 and $608,827, respectively. At June 30, 2018 and 2017, these amounts consisted of deposits with the OST ($544,048 and $578,763), deposits with financial institutions ($21,540 and $20,949), deposits with trustees ($9,209 and $9,072), and petty cash and change funds ($39 and $43).

OK INVEST
Of funds on deposit with the OST, amounts invested in *OK INVEST* total $445,709 and $496,773 at June 30, 2018 and 2017 and are reported as cash equivalents. 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's and its funds' and agencies' daily cash flow requirements.

June 30, 2018 and 2017 (in thousands)

Guidelines in the *OK INVEST* Investment Policy address credit quality requirements and 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.

Unless significant or unusual losses are incurred by *OK INVEST*, the Center's interest in *OK INVEST* is stated at cost, plus accrued interest. *OK INVEST* provides the Center with a stated rate of return rather than an equivalent share of investment gains or losses. Amounts invested in *OK INVEST* are available for unrestricted withdrawal.

The distribution of investments in *OK INVEST* at June 30, 2018 and 2017, is as follows:

	2018	2017
U.S. agency securities	45.4%	42.0%
Mortgage backed agency securities	39.5%	40.0%
Money market mutual funds	9.8%	10.3%
Certificates of deposit	3.8%	4.5%
Municipal bonds	0.6%	1.6%
U.S. Treasury obligations	0.5%	0.6%
Foreign bonds	0.4%	1.0%
	100%	100%

As of June 30, 2018 and 2017, the Center held approximately 8.1% and 9.5% of the *OK INVEST* fund. The market value of *OK INVEST* as of June 30, 2018 and 2017 was $5,516,945 and $5,222,328, respectively, and the amortized cost was $5,530,864 and $5,218,812, respectively.

June 30, 2018 and 2017 (in thousands)

Investments

The Center's investments in securities and investments in real estate are recorded at fair value. GASB No. 72 specifies a hierarchy of valuation classifications based on whether the inputs to the valuation techniques used in each valuation classification are observable or unobservable. These classifications are summarized in the three broad levels listed below:

Level 1 – Unadjusted quoted prices for identical instruments in active markets that the reporting entity has the ability to access at the measurement date.

Level 2 –Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are directly or indirectly observable. Examples would be matrix pricing, market corroborated pricing and inputs such as yield curves and indices.

Level 3 – Valuations derived from valuation techniques in which significant inputs or significant value drivers are unobservable and may rely on the reporting entity's own assumptions, but the market participant's assumptions may be used in pricing the asset or liability.

Inputs used to measure fair value might fall in different levels of the fair value hierarchy, in which case the Center defaults to the lowest level input that is significant to the fair value measurement in its entirety. These levels are not necessarily an indication of the risk or liquidity associated with the investments. In determining the appropriate levels, the Center performed a detailed analysis of the assets and liabilities that are subject to GASB No. 72. The Center establishes the fair value of certain investments that do not have a readily determinable fair value by using net asset value (NAV) per unit. Investments measured at NAV per unit are not categorized within the fair value hierarchy.

At June 30, the Center's investments, including the fair value inputs used, consisted of the following:

	2018	2017
Endowment Investments		
Consolidated Investment Fund (CIF) - NAV	$ 35,606	$ 33,848
Expendable Investment Pool II (EIP II) - NAV	9,044	9,454
Total endowment investments	44,650	43,302
Other Long-Term Investments		
Fidelity Revenue Sharing - Level 1	347	569
Special Purpose Investment Vehicle (SPIV) - Level 3	135,785	-
Expendable Investment Pool II (EIP II) - NAV	87	99,347
Total other long-term investments	136,219	99,916
Investments in Real Estate		
Real property - Level 3	3,476	6,499
Total investments	$ 184,345	$ 149,717

Fidelity Revenue Sharing - Level 1: These investments consist of short-term money market mutual funds accumulated from revenue sharing arrangements in employee defined contribution accounts held and managed by Fidelity.

Special Purpose Investment Vehicle I (SPIV) – Level 3: During the current fiscal year, the Center requested the Foundation to create a SPIV and to transfer Center assets from EIP II to the SPIV. Investments are held as alternative investments by the Foundation.

Real property - Level 3: These are investments owned directly by the Center and held for investment purposes. The real property is measured using an internal analysis that considers indications of impairment or changes in property values. Management does not adjust this investment for immaterial changes based on this assessment. During the current fiscal year, the Center sold real property for $3,023 resulting in a decrease in investments in real estate.

Investments measured at NAV per unit: 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 Foundation with a portion of their funds totaling $44,737 and $142,649 as of June 30, 2018 and 2017, respectively. The investments held at the Foundation on behalf of the Center within two separate investment pools are as follows:

> *Consolidated Investment Fund* – Investments in this pool consist primarily of domestic and international equity securities, U.S. government securities, derivative financial instruments and alternative holdings. The Foundation considers the underlying investments within this pool to include Level 1, 2, 3, and NAV inputs. The Center owns approximately 2.9% of the fund as of June 30, 2018 and 2017.
>
> *Expendable Investment Pool II* – Investments in this pool primarily consists of liquid money market funds, mutual funds, equities and separate accounts holding U.S. government and corporate fixed income securities. The Foundation considers the underlying investments within this pool to include Level 1, 2, and NAV inputs. The Center owns approximately 16.8% and 83.4% of the fund as of June 30, 2018 and 2017.

Ownership interests in each pool are unitized. The Foundation calculates the NAV per unit monthly based on the value of the underlying assets in each pool. New investments and withdrawals from these pools for the benefit of the unit holders are transmitted at the NAV per unit on the monthly valuation dates.

The Center's investments have no unfunded commitments and funds may be redeemed daily with no redemption notice. Within the CIF pool, certain investments held do have unfunded commitments and limitations on redemption frequency, including redemption notice periods. The total market value of the CIF fund as of June 30, 2018 totaled $1,299,811. Unfunded commitments within this fund totaled $202,571. There were redemption limitations that ranged from quarterly to 3 years with a 30 to 90 day redemption notice period on investments with a total market value of $206,135. Investments held in real estate funds and private equity funds with a total market value at June 30, 2018 of $310,848 cannot be redeemed and are subject to the terms of the individual funds. These funds typically have lives up to ten years (with the potential for extensions if necessary), and distributions at the discretion of the general partners.

Equity holdings measured at cost: The Center has acquired equity positions in commercial enterprises as consideration for various license agreements. The Center has no cost basis for these positions and their fair value is not subject to a reasonable estimation. Therefore, the value of these investments is not reflected on the statements of net position. If the positions become actively traded equities and the fair value can be determined, then the Center will record the equity on the statement of net position at fair value and recognize related income. Per the individual agreements, the Center receives royalties from companies in which an equity position is held, which are currently recognized when received and are immaterial to the financial statements. The Center monitors their ownership position in each of the companies. During fiscal year 2017, the Center received $4,869 from the sale of investments in equity holdings which are recorded as net investment income.

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. In addition, the Board authorized investments in the CIF, EIP II, and SPIV with the Foundation.

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 Norman Campus in the CIF and EIP II with the Foundation and held in the Regent's name.
- Long term investments are held in the EIP II and SPIV with the Foundation.

June 30, 2018 and 2017 (in thousands)

Concentration of Credit Risk

The Center's investments can be exposed to a concentration of credit risk if significant amounts are invested in any one issuer. The Center's short term investment strategy imposes a limit on the amount the Center may invest in any one issuer to 50% of the total investment portfolio. The Center has adopted the Foundation's "Statement of Investment Policy" for the CIF, EIP II, and SPIV investments with the Foundation. Within the CIF, investments consist of domestic and international equity securities, U.S. government securities, derivative financial instruments and alternative holdings. Within the EIP II, investments consist of liquid money market funds, mutual funds, equities and separate accounts holding U.S. government and corporate fixed income securities. Within the SPIV, investments consist of alternative investments. All of these funds are held with the Foundation. Due to the diversification within these investments, the Center believes it does not have any significant concentrations of credit risk.

Interest Rate Risk

The Center has a short term investment strategy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Center has adopted the Foundation's "Statement of Investment Policy" for funds invested at the Foundation. The Center is responsible for determining its operating cash flow requirements and to ensure 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.

Note 3 - Accounts Receivable

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

	2018	2017
Accounts receivable	$ 244,829	$ 233,704
Less allowance and contractual adjustments	(91,552)	(95,699)
Accounts receivable, net	$ 153,277	$ 138,005

June 30, 2018 and 2017 (in thousands)

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

	2018	2017
PPP patient billings:		
Accounts receivable	$ 139,901	$ 145,237
Less contractual adjustments	(74,311)	(77,438)
Less allowance	(17,100)	(18,148)
Accounts receivable, net	$ 48,490	$ 49,651
Due from federal, state and private sources:		
Accounts receivable, no allowance	$ 93,936	$ 81,165
Auxiliary enterprises:		
Accounts receivable	$ 7,285	$ 4,510
Less allowance	(141)	(113)
Accounts receivable, net	$ 7,144	$ 4,397
State tuition and fees:		
Accounts receivable, no allowance	$ 1,365	$ 1,185
Other accounts receivable, no allowance	$ 2,342	$ 1,607

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.

June 30, 2018 and 2017 (in thousands)

Differences between the Center's established patient care rates and agreed upon rates with third party payors total $566,587 and $547,575 for the years ended June 30, 2018 and 2017, respectively, and are reflected as contractual and other adjustments to patient care revenues in the statements of revenues, expenses, and changes in net position. The Center's bad debt expenses related to patient care services, which are determined after application of contractual and other adjustments, total $45,609 and $44,738 for the years ending June 30, 2018 and 2017, respectively, and are included in patient care revenues in the statements of revenues, expenses, and changes in net position.

The following summarizes the estimated percentage of gross patient charges from all payors for the years ended June 30, 2018 and 2017.

	2018	2017
Medicare	26%	24%
Medicaid	30%	32%
Other third-party and commercial payors	39%	39%
Other, including self pay	5%	5%
	100%	100%

Note 5 - Inventories and Supplies

Inventories and supplies consisted of the following at June 30:

	2018	2017
Site support	$ 246	$ 248
Telecommunications	130	129
Other service units	104	108
Dental supply store	670	891
Other auxiliaries	9	9
Pharmacies	2,101	3,575
	$ 3,260	$ 4,960

Note 6 - Loans to Students

The Center had student loans outstanding of $6,728 and $6,648 (net of allowance for uncollectible loans of $354 and $350) at June 30, 2018 and 2017, respectively. Student loans made under the Health Professions Student Loan Program and the Nursing Student Loan Program represented approximately $6,728 and $6,642 (net of allowance for uncollectible loans of $354 and $350) 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. The Center had a cash balance of $1,624 and $1,471, which is included in cash and cash equivalents in the Statements of Net Position, at June 30, 2018 and 2017, respectively, for these programs. At June 30, 2018 and 2017, $7,424 and $7,212, respectively, are included as federal loan program contributions refundable in the statements of net position as these amounts are refundable to the U.S. government upon cessation of the programs.

June 30, 2018 and 2017 (in thousands)

Note 7 - Capital Assets

Capital asset activity as of and for the year ended June 30, 2018, includes the following:

	Beginning Balance	Additions	Transfers	Deductions	Ending Balance
Capital assets not being depreciated:					
Art	$ 805	$ 478	$ -	$ -	$ 1,283
Land	32,672	539	-	-	33,211
Construction in-progress	7,698	12,749	(11,359)	-	9,088
Total capital assets not being depreciated	41,175	$ 13,766	$ (11,359)	$ -	43,582
Capital assets being depreciated:					
Improvements	17,037	$ (37)	$ 363	$ -	17,363
Buildings	641,064	5,433	6,264	-	652,761
Equipment	159,479	8,333	1,046	(7,026)	161,832
Infrastructure	6,778	7	853	-	7,638
Leasehold improvements	39,445	258	2,833	(23)	42,513
Library materials	29,941	245	-	-	30,186
Total capital assets being depreciated	893,744	$ 14,239	$ 11,359	$ (7,049)	912,293
Less accumulated depreciation					
Improvements	14,481	$ 434	$ -	$ -	14,915
Buildings	158,354	12,911	-	-	171,265
Equipment	110,475	11,514	-	(5,766)	116,223
Infrastructure	2,140	338	-	-	2,478
Leasehold improvements	28,592	2,661	-	(23)	31,230
Library materials	28,404	552	-		28,956
Total accumulated depreciation	342,446	$ 28,410	$ -	$ (5,789)	365,067
Total capital assets being depreciated, net	551,298				547,226
Capital assets, net	$ 592,473				$ 590,808

June 30, 2018 and 2017 (in thousands)

Capital asset activity as of and for the year ended June 30, 2017, includes the following:

	Beginning Balance	Additions	Transfers	Deductions	Ending Balance
Capital assets not being depreciated:					
Art	$ 735	$ -	$ 70	$ -	$ 805
Land	32,006	-	666	-	32,672
Construction in-progress	2,224	25,367	(19,893)	-	7,698
Total capital assets not being depreciated	34,965	$ 25,367	$ (19,157)	$ -	41,175
Capital assets being depreciated:					
Improvements	16,342	$ 204	$ 496	$ (5)	17,037
Buildings	623,559	1,014	16,491	-	641,064
Equipment	149,953	13,735	1,882	(6,091)	159,479
Infrastructure	6,801	(50)	27	-	6,778
Leasehold improvements	38,712	472	261	-	39,445
Library materials	29,780	161	-	-	29,941
Total capital assets being depreciated	865,147	$ 15,536	$ 19,157	$ (6,096)	893,744
Less accumulated depreciation					
Improvements	14,045	$ 436	$ -	$ -	14,481
Buildings	145,648	12,706	-	-	158,354
Equipment	103,591	11,880	-	(4,996)	110,475
Infrastructure	1,820	320	-	-	2,140
Leasehold improvements	26,043	2,549	-	-	28,592
Library materials	27,767	637	-	-	28,404
Total accumulated depreciation	318,914	$ 28,528	$ -	$ (4,996)	342,446
Total capital assets being depreciated, net	546,233				551,298
Capital assets, net	$ 581,198				$ 592,473

Note 8 - Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of the following at June 30:

	2018	2017
Accounts payable and other accrued expenses	$ 27,907	$ 29,078
Accrued payroll	47,250	42,035
Self insurance reserves	7,189	6,384
	$ 82,346	$ 77,497

June 30, 2018 and 2017 (in thousands)

Note 9 - Unearned Revenue

Unearned revenue consists of the following at June 30:

	2018	2017
Prepaid tuition and student fees	$ 1,426	$ 1,393
Auxiliary enterprises and other activities	248	170
Contracts	11,415	7,671
	$ 13,089	$ 9,234

Note 10 - Funds Held in Trust by Others

Commissioners of the Land Office

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 $10,167 and $9,924 during the years ended June 30, 2018 and 2017, respectively, which is restricted to acquisition of buildings, equipment, or other capital items. Of these amounts, the Center received approximately $3,541 and $4,612 in fiscal years 2018 and 2017, respectively. Present state law prohibits the distribution of any corpus of these funds. The estimated fair value of these trust funds totaled approximately $177,930 ($182,347 restricted corpus) and $181,975 ($176,027 restricted corpus) at June 30, 2018 and 2017, respectively, and have not been reflected in the accompanying financial statements.

Oklahoma State Regents for Higher Education Endowment Fund Program

The State of Oklahoma matches endowment contributions received under this program by the Foundation, and legal title of the state match is retained by the State Regents. After an endowment gift to the Foundation has been matched by the State Regents, the original endowment fund and subsequent returns continue to be invested and managed by the Foundation, while the matching portion is independently invested and managed by the State Regents.

June 30, 2018 and 2017 (in thousands)

The cumulative match amount, plus any retained accumulated earnings, invested by the State Regents on behalf of the Center, as well as the cumulative undisbursed contributions made to the Foundation for the benefit of the Center, are not included in the accompanying financial statements. The Center will receive an annual distribution of earnings on these funds. Only the funds available for distribution, for which the Center has incurred allowable reimbursable expenses, have been included in accounts receivable in the statements of net position and are reflected on the table below as of June 30:

	2018		2017	
	Funds Held by Others	Reimbursable Expenses	Funds Held by Others	Reimbursable Expenses
State Regents	$ 190,797	$ 6,919	$ 184,780	$ 7,487
OU Foundation	263,226	9,458	268,958	10,168
	$ 454,023	$ 16,377	$ 453,738	$ 17,655

Note 11 - Operating Leases

Lessee Commitments

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 $11,995 and $10,432 for the years ended June 30, 2018 and 2017, respectively.

Lessor Agreements

The Center has various non-cancelable operating leases consisting of Center owned building space or land leased to non-Center entities. The majority of the leases are for space leased at the University Research Park (URP) which was purchased by the Center in October 2013. Various other leases from other Center owned property are also in effect. The following schedule presents minimum future rentals receivable by property from these contracts:

	2019	2020	2021	2022	2023	Thereafter
University Research Park	$ 6,611	$ 5,222	$ 3,526	$ 236	$ -	$ -
Harold Hamm Diabetes Center	128	132	136	140	144	288
Student Union	15	15	15	15	15	75
Land leases	84	85	86	87	88	3,245
	$ 6,838	$ 5,454	$ 3,763	$ 478	$ 247	$ 3,608

June 30, 2018 and 2017 (in thousands)

The cost and carrying amount of the leased property attributed to non-cancelable leases as of June 30, 2018 was as follows:

	Cost	Accumulated Depreciation	Net Leased Property
University Research Park	$ 33,806	$ (2,924)	$ 30,882
Harold Hamm Diabetes Center	793	(137)	656
Student Union	108	(41)	67
Land leases	596	-	596
Net leased property	$ 35,303	$ (3,102)	$ 32,201

The Center also has various other leases that are cancelable or currently month-to-month. The following schedule includes the cost and carrying amount of the leased property for these leases as of June 30, 2018:

	Cost	Accumulated Depreciation	Net Leased Property
University Research Park	$ 10,777	$ (965)	$ 9,812
Student Union	453	(170)	283
Biomedical Research Center	67	(22)	45
Basic Sciences Education Building	16	(8)	8
Family Medicine	78	(34)	44
O'Donoghue Building	214	(182)	32
Rogers Building	138	(41)	97
Stephenson Cancer Center	46,339	(6,449)	39,890
Williams Pavilion	164	(135)	29
Tulsa Schusterman Center	1,997	(281)	1,716
Service Center Building	933	(461)	472
Harold Hamm Diabetes Center	2,793	(482)	2,311
Land leases	51	-	51
Net leased property	$ 64,020	$ (9,230)	$ 54,790

June 30, 2018 and 2017 (in thousands)

Note 12 - Long-Term Liabilities

The following is a summary of long-term obligation transactions of the Center as of and for the year ended June 30, 2018:

	Interest Rates (in Percent)	Maturity Through	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Bonds, notes and capital leases:							
Revenue bonds payable:							
Utility System Series 2004 A&B	3.9-4.0	11/1/2019	$ 2,465	$ -	$ (790)	$ 1,675	$ 820
General Revenue Bonds Series 2008 A&B	6.16-6.63	7/1/2036	60,540	-	(46,625)	13,915	1,805
General Revenue Bonds Series 2010 A&B	3.25-5.00	7/1/2030	18,860	-	(2,095)	16,765	2,175
General Revenue Bonds Series 2013A	2.69-5.63	7/1/2043	60,730	-	(1,150)	59,580	1,180
General Revenue Bonds Series 2017A	1.49-4.03	7/1/2036	-	46,900	-	46,900	225
Subtotal revenue bonds payable			142,595	46,900	(50,660)	138,835	6,205
Premium (Discount)			(1,593)	453	(20)	(1,120)	(20)
Total revenue bonds payable			141,002	47,353	(50,680)	137,715	6,185
ODFA capital leases payable			3,342	2,795	(3,536)	2,601	616
OCIA capital leases payable			18,230	-	(2,506)	15,724	2,590
Subtotal capital leases payable			21,572	2,795	(6,042)	18,325	3,206
Premium (Discount)			(2)	181	25	154	39
Total capital leases payable			21,570	2,976	(6,017)	18,479	3,245
Total bonds and capital leases			162,572	50,329	(56,697)	156,194	9,430
Other noncurrent liabilities:							
Accrued compensated absences			34,967	30,102	(28,923)	36,146	30,363
Net pension liability			315,968	-	(60,235)	255,733	-
Total OPEB liability			101,436	9,160	-	204,856	-
GASB 75 beginning balance adjustment			94,260				
Federal loans program contributions receivable			7,212	212	-	7,424	-
Total other noncurrent liabilities			553,843	39,474	(89,158)	504,159	30,363
Total noncurrent liabilities			$ 716,415	$ 89,803	$ (145,855)	$ 660,353	$ 39,793

June 30, 2018 and 2017 (in thousands)

The following is a summary of long-term obligation transactions of the Center as of and for the year ended June 30, 2017:

	Interest Rates (in Percent)	Maturity Through	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Bonds, notes and capital leases:							
Revenue bonds payable:							
Utility System Series 2004 A&B	2.61-4.85	11/1/2019	$ 3,230	$ -	$ (765)	$ 2,465	$ 790
General Revenue Bonds Series 2008 A&B	3.28-6.63	7/1/2036	62,145	-	(1,605)	60,540	1,700
General Revenue Bonds Series 2010 A&B	1.24-5.00	7/1/2030	21,025	-	(2,165)	18,860	2,095
General Revenue Bonds Series 2013A	.46-6.0	7/1/2043	61,860	-	(1,130)	60,730	1,150
Subtotal revenue bonds payable			148,260	-	(5,665)	142,595	5,735
Premium (Discount)			(1,637)	-	44	(1,593)	(44)
Total revenue bonds payable			146,623	-	(5,621)	141,002	5,691
ODFA capital leases payable			3,931	-	(589)	3,342	611
OCIA capital leases payable			20,636	-	(2,406)	18,230	2,506
Subtotal capital leases payable			24,567	-	(2,995)	21,572	3,117
Premium (Discount)			-	-	(2)	(2)	3
Total capital leases payable			24,567	-	(2,997)	21,570	3,120
Total bonds and capital leases			171,190	-	(8,618)	162,572	8,811
Other noncurrent liabilities:							
Accrued compensated absences			34,185	28,818	(28,036)	34,967	28,673
Net pension liability			217,743	98,225	-	315,968	-
Net OPEB obligation			94,926	10,184	(3,674)	101,436	4,688
Federal loans program contributions refundable			7,109	103	-	7,212	-
Total other noncurrent liabilities			353,963	137,330	(31,710)	459,583	33,361
Total noncurrent liabilities			$ 525,153	$ 137,330	$ (40,328)	$ 622,155	$ 42,172

Revenue Bonds Payable

In fiscal year 2009, General Revenue Bonds, Series 2008A and 2008B, were issued by the Board of Regents pursuant to the Master Resolution establishing the University of Oklahoma Health Sciences Center General Revenue Financing System in support of funding for the OU Cancer Institute. The revenue pledged as security for these obligations is any or all revenues of the Center which are lawfully available for the payment of obligations, excluding revenues appropriated by the state legislature (except for in certain circumstances the Dedicated Tobacco Tax Revenues), funds whose purpose has been restricted by the donors or grantors to a purpose inconsistent with the payment of such obligations, and any funds pledged for prior encumbered obligations.

In fiscal year 2010, 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.

In fiscal year 2014, General Revenue Bonds, Series 2013A, 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 acquire a research park for the Center. 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.

In fiscal year 2018, General Revenue Bonds, Series 2017A, 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 refund Series 2008A bond issue which provided funding support 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. The advance refunding resulted in a difference between the reacquisition price and net carrying amount of the old debt of $2,085. This difference, recorded as deferred refunding costs and reported in the accompanying financial statements as a deferred outflow of resources, is being amortized through interest expense during the term of the Series 2017A Bonds using the straight-line method. The Center completed its advance refunding to reduce its total debt service payments over the next 19 years by approximately $4,454, and to obtain an economic gain (difference between the present values of the old and new debt service payments) of approximately $3,219.

At June 30, 2018 and 2017, the total principal and interest remaining to be paid on the General Revenue Bonds was $218,923 and $234,969. Total pledged revenue received during the years ended June 30, 2018 and 2017 was $676,538 and $636,643. Debt service payments of $11,247 and $12,065, including both principal and interest, were 1.7% and 1.9% of pledged revenues at June 30, 2018 and 2017.

Utility System Revenue bonds issued prior to the Resolution (prior encumbered obligations) are payable both to principal and interest from the net revenues arising from operations of the physical plant utilities system. At June 30, 2018 and 2017, the Center had $562 and $545 respectively, of cash and investments, reported as restricted cash on the statements of net position, held in trust for the bond indentures, restricted to the payment of principal and interest.

June 30, 2018 and 2017 (in thousands)

Capital Lease Obligations

OCIA Capital Lease Obligations
The Oklahoma Capital Improvement Authority (OCIA) periodically issues bonds, which are allocated to the State Regents for Higher Education (the State Regents), to be used for specific projects at Oklahoma higher education institutions. The Center has participated in these projects as discussed below. In each of the transactions, OCIA and the Center have entered into a lease agreement with terms characteristic of a capital lease. As a result, the Center recognizes its share of the liability and the related assets in connection with the projects being constructed or acquired, in its financial statements. Annually, the State Legislature appropriates funds to the State Regents to make the monthly lease principal and interest payments on-behalf of the Center.

In the fall of 2005, the Center entered into a 25 year lease agreement with the OCIA and the State Regents 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 and the assets under these capital leases as of June 30, have been recorded as follows:

				2018		2017	
OCIA State Facilities Revenue Bonds	Issued	Term	Proceeds Received	Accumulated Depreciation*	Net Book Value	Accumulated Depreciation*	Net Book Value
2005F, 2005G, 2010A 2010B, 2014A	Fall 2005	25 years	$ 26,146	$ 5,128	$ 21,018	$ 4,605	$ 21,541

*Depreciation expense on these capital lease assets is included in depreciation expense on the Statements of Revenues, Expenses and Changes in Net Position.

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. 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.

In April 2014, the Center's 2005F lease agreement with the OCIA was restructured through a partial refunding of OCIA's 2005F bond debt. OCIA issued a new bond, Series 2014A. OCIA issued this new debt to provide budgetary relief by restructuring debt service. Consequently, the Center's lease agreement with OCIA automatically restructured to secure the new bond issues. The Center has recorded a deferred inflow of resources of $783, which is the difference between the reacquisition price and the net carrying amount of the old debt that is being amortized over the remaining life of the old debt.

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.

During the years ended June 30, 2018 and 2017, the State Regents made lease principal and interest payments totaling $3,241 and $3,127 on behalf of the Center. These on-behalf payments have been recorded in the Center's statement of revenues, expenses, and changes in net position. As stated above, the on-behalf payments are subject to annual appropriations by the State Legislature.

June 30, 2018 and 2017 (in thousands)

ODFA Master Lease Obligations

The Center has entered into various master lease agreements with the Oklahoma Development Finance Authority (ODFA) and the State Regents as a beneficiary of a portion of the proceeds from the ODFA State Regents for Higher Education Master Lease Revenue Bonds. These proceeds have been used by the Center to fund major capital projects on both the Oklahoma City and Tulsa campuses and the assets under the capital leases as of June 30, have been recorded as follows:

				2018		2017	
ODFA Master Leases	Issued	Term	Amount Financed	Accumulated Depreciation*	Net Book Value	Accumulated Depreciation*	Net Book Value
2007B/2017C	December 2007	15 years	$ 6,067	$ 1,212	$ 4,855	$ 1,092	$ 4,975
2007C/2017D	December 2007	15 years	1,304	263	1,041	211	1,093
2014C	December 2014	5 years	401	287	114	207	194
			$ 7,772	$ 1,762	$ 6,010	$ 1,510	$ 6,262

*Depreciation expense on these capital lease assets is included in depreciation expense on the Statements of Revenues, Expenses and Changes in Net Position.

In fiscal year 2018, Master Lease Revenue Bonds Series 2007B and 2007C were refunded with Series 2017C and 2017D. The lease restructuring has resulted in an aggregate debt service difference for principal and interest between the original leases agreement and the restructured leases agreement of $208. The Center has recorded a deferred outflow of resources of $15, which is the difference between the reacquisition price and the net carrying amount of the old debt that is being amortized over the life of the new debt.

Maturities of principal and interest requirements on revenue bonds payable and capital lease obligations are as follows at June 30, 2018:

	2019	2020	2021	2022	2023	2024 - 2028	2029 - 2033	2034 - 2038	2039 - 2043	2044	Total
Utility System Series 2004 A&B	$ 870	$ 872	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,742
General Revenue Bonds Series 2008 A&B	2,664	2,660	2,653	2,648	2,644	3,838	-	-	-	-	17,107
General Revenue Bonds Series 2010 A&B	2,900	2,283	2,278	2,271	2,269	7,555	768	-	-	-	20,324
General Revenue Bond Series 2013 A	4,307	4,306	4,304	4,302	4,305	21,527	21,522	21,538	21,537	4,308	111,956
General Revenue Bond Series 2017 A	1,921	1,917	1,918	1,918	1,917	19,019	22,788	18,138	-	-	69,536
Total principal and interest	12,662	12,038	11,153	11,139	11,135	51,939	45,078	39,676	21,537	4,308	220,665
Less interest	6,457	6,188	5,918	5,639	5,340	22,349	16,513	9,521	3,787	118	81,830
Subtotal principal	6,205	5,850	5,235	5,500	5,795	29,590	28,565	30,155	17,750	4,190	138,835
Plus: Premium (Discount)	(20)	(17)	(16)	(16)	(16)	(188)	(276)	(285)	(285)	-	(1,119)
Total principal	6,185	5,833	5,219	5,484	5,779	29,402	28,289	29,870	17,465	4,190	137,716
Capital leases	3,974	1,295	1,244	1,244	2,076	8,973	5,343	-	-	-	24,149
Less interest	768	693	676	659	607	2,048	373	-	-	-	5,824
Subtotal principal	3,206	602	568	585	1,469	6,925	4,970	-	-	-	18,325
Plus: Premium (Discount)	39	35	33	33	14	-	-	-	-	-	154
Total principal	3,245	637	601	618	1,483	6,925	4,970	-	-	-	18,479
Total principal	$ 9,430	$ 6,470	$ 5,820	$ 6,102	$ 7,262	$ 36,327	$ 33,259	$ 29,870	$ 17,465	$ 4,190	$ 156,195

Note 13 - 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:

Name of Plan/System	Type of Plan
Oklahoma Teachers' Retirement System (OTRS)	Cost Sharing Multiple Employer Defined Benefit Plan
Oklahoma Law Enforcement Retirement System (OLERS) – certain University employees	Cost-Sharing Multiple Employer Defined Benefit Plan
Oklahoma Public Employees Retirement Plan (OPERS)	Cost-Sharing Multiple Employer Defined Benefit Plan
Optional Retirement Plan (ORP)	Defined Contribution Plan
University of Oklahoma Defined Contribution Plan (Plan 1)	Defined Contribution Plan
University of Oklahoma Defined Contribution Plan for Hourly Employees who are Non-OTRS Participants (Plan 2)	Defined Contribution Plan

Oklahoma Teachers Retirement System

Plan Description

The Center participates in the OTRS, a cost-sharing multiple-employer public employee retirement system that is self-administered. OTRS provides retirement, disability, and death benefits to plan members and beneficiaries. Benefit provisions are established and may be amended by the legislature of the State of Oklahoma. Title 70 of the Oklahoma State Statutes assigns the authority for management and operation of OTRS to the Board of Trustees of the System. OTRS issues a publicly available annual financial report that can be obtained at www.ok.gov/TRS/.

Benefits Provided

OTRS provides defined retirement benefits based on members' final compensation, age, and term of service. In addition, the retirement program provides for benefits upon disability and to survivors upon the death of eligible members. Title 70 O. S. Sec. 17-105 defines all retirement benefits. The authority to establish and amend benefit provisions rests with the State Legislature.

Benefit provisions include:

- Members who joined OTRS prior to November 1, 2017 are 100% vested in retirement benefits earned to date after five years of credited Oklahoma service. Those who became members on or after November 1, 2017 will require seven years of service to be fully vested. Members who joined OTRS on June 30, 1992 or prior are eligible to retire at maximum benefits when age and years of creditable service total 80. Members joining OTRS after June 30, 1992 are eligible for maximum benefits when their age and years of creditable service total 90. Members whose age and service do not equal the eligible limit may receive reduced benefits as early as age 55, and at age 62 receive unreduced benefits based on their years of service. The maximum retirement benefit is equal to 2% of final compensation for each year of credited service.

- Final compensation for members who joined OTRS prior to July 1, 1992 is defined as the average salary for the three highest years of compensation. Final compensation for members joining OTRS after June 30, 1992 is defined as the average of the highest five consecutive years of annual compensation in which contributions have been made. The final average compensation is limited for service credit accumulated prior to July 1, 1995 to $40 or $25, depending on the member's election. Monthly benefits are 1/12 of this amount. Service credits accumulated after June 30, 1995 are calculated based on each member's final average compensation, except for certain employees of the two comprehensive universities.

- Upon the death of a member who has not yet retired, the designated beneficiary shall receive the member's total contributions plus 100% of interest earned through the end of the fiscal year, with interest rates varying based on time of service. A surviving spouse of a qualified member may elect to receive, in lieu of the aforementioned benefits, the retirement benefit the member was entitled to at the time of death as provided under the Joint Survivor Benefit Option.

- Upon the death of a retired member, OTRS will pay $5 to the designated beneficiary, in addition to the benefits provided for the retirement option selected by the member.

- A member is eligible for disability benefits after ten years of credited Oklahoma service. The disability benefit is equal to 2% of final average compensation for the applicable years of credited service.

- Upon separation from OTRS, members' contributions are refundable with interest based on certain restrictions provided in the plan, or by the IRC.

- Members may elect to make additional contributions to a tax-sheltered annuity program up to the exclusion allowance provided under the IRC under Code Section 403(b).

June 30, 2018 and 2017 (in thousands)

Contributions

The contribution requirements of OTRS are at an established rate determined by Oklahoma Statute and are not based on actuarial calculations. Employees are required to contribute 7% of their annual compensation. The Center's contribution rate is 8.55% for the years ended June 30, 2018 and 2017. In addition, the Center is required to contribute 2.5% as a result of the adoption of ORP, Plan 1 and Plan 2 (the Alternate Retirement Plans, or ARP) for certain employees that have elected not to participate in OTRS due to a one-time irrevocable election provision which became effective July 1, 2004. The Center's contributions to OTRS in 2018 and 2017, which include the 8.55% regular employer contribution and the 2.5% ARP contribution, were approximately $17,655 and $17,312, respectively, equal to the required contributions each year. In addition, the State of Oklahoma also contributed 5% of State revenues from sales, use and individual income taxes to OTRS. The amounts contributed on-behalf of the Center and recognized in the Center's Statement of Revenues, Expenses and Changes in Net Position as both revenues and compensation and benefit expense in 2018 and 2017 were $10,465 and $10,478, respectively. These on-behalf payments do not meet the definition of a special funding situation.

Pension Liabilities, Pension Expense, and Deferred Outflows/Inflows of Resources Related to Pensions

At June 30, 2018 and 2017, the Center reported a liability of $252,920 and $312,670, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017 and 2016, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017 and 2016, respectively. The Center's proportion of the net pension liability was based on the Center's contributions to OTRS relative to total contributions of OTRS for all participating employers for the years ended June 30, 2017 and 2016. Based upon this information, the Center's proportion was 3.75192290% and 3.61467924% as of June 30, 2017 and 2016, respectively.

For the years ended June 30, 2018 and 2017, the Center recognized pension expense of $25,716 and $38,674, respectively. At June 30, 2018 and 2017, the Center reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2018	2017
Deferred Outflows of Resources		
Changes of assumptions	$ 29,481	$ 36,325
Center contributions subsequent to the measurement date	17,655	17,312
Changes in proportion	15,806	10,681
Net difference between projected and actual earnings on pension plan investments	3,531	35,215
Total	$ 66,473	$ 99,533
Deferred Inflows of Resources		
Differences between expected and actual experience	$ 16,961	$ 7,003
Changes of assumptions	14,850	-
Changes in proportion	510	669
Total	$ 32,321	$ 7,672

June 30, 2018 and 2017 (in thousands)

Deferred pension outflows: Deferred outflows totaling $17,655 at June 30, 2018, resulting from the Center's contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Deferred outflows totaling $17,312 at June 30, 2017, resulting from the Center's contributions subsequent to the measurement date, were recognized as a reduction of the net pension liability in the year ended June 30, 2018. Deferred outflows totaling $29,481 and $36,325 at June 30, 2018 and 2017, respectively, resulting from the Center's portion of changes in assumptions, will be recognized in pension expense using the average expected remaining life of the Plan. Deferred outflows totaling $15,806 and $10,681 at June 30, 2018 and 2017, respectively, due to changes in proportion, will be recognized in pension expense using the average expected remaining life of the Plan. Deferred outflows resulting from the difference between projected and actual earnings on pension plan investments totaling $3,531 and $35,215 at June 30, 2018 and 2017, respectively, will be recognized in pension expense over five years.

Deferred pension inflows: Deferred inflows totaling $16,961 and $7,003 at June 30, 2018 and 2017, respectively, resulting from differences between expected and actual experience, will be recognized in pension expense using the average expected remaining life of the Plan. Deferred inflows totaling $14,850 at June 30, 2018, due to changes in assumptions, will be recognized in pension expense using the average expected remaining life of the Plan. Deferred inflows totaling $510 and $669 at June 30, 2018 and 2017, respectively, due to changes in proportion, will be recognized in pension expense using the average expected remaining life of the Plan.

The average expected remaining service life of the plan is determined by taking the calculated total future service years of the Plan divided by the number of people in the Plan including retirees. The total future service years of the Plan are determined using the mortality, termination, retirement, and disability assumptions associated with the Plan. The average expected service life of the Plan equals 5.59 and 5.71 years at June 30, 2017 and 2016, respectively, as of the valuation date.

Deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Year Ended June 30:	Deferred Outflows	Deferred Inflows
2019	$ 7,929	$ (7,690)
2020	19,084	(7,690)
2021	14,233	(7,302)
2022	2,832	(6,226)
2023	4,740	(3,413)
	$ 48,818	$ (32,321)

Actuarial Assumptions

The total pension liability as of June 30, 2018, was determined based on actuarial valuations prepared as of June 30, 2017, using the following actuarial assumptions:

- Actuarial Cost Method—Entry Age Normal
- Inflation—2.50%
- Future Ad Hoc Cost-of-living Increases—None
- Salary Increases—Composed of 3.25% inflation, plus 2.50% price inflation, plus a service-related component ranging from 0.00% to 8.00% based on years of service.
- Investment Rate of Return—7.50%
- Retirement Age— Experience-based table of rates based on age, service, and gender. Adopted by the Board in May 2015 in conjunction with the five year experience study for the period ending June 30, 2014.
- Mortality Rates after Retirement— Males: RP-2000 Combined Healthy mortality table for males with White Collar Adjustments. Generational mortality improvements in accordance with Scale BB from the table's base year of 2000. Females: GRS Southwest Region Teacher Mortality Table, scaled at 105%. Generational mortality improvements in accordance with Scale BB from the table's base year of 2012.

The total pension liability as of June 30, 2017, was determined based on actuarial valuations prepared as of June 30, 2016, using the following actuarial assumptions:

- Actuarial Cost Method—Entry Age Normal
- Inflation—2.50%
- Future Ad Hoc Cost-of-living Increases—None
- Salary Increases—Composed of 3.00% inflation, plus 0.75% productivity increase rate, plus step-rate promotional increases for members with less than 25 years of service.
- Investment Rate of Return—7.50%
- Retirement Age— Experience-based table of rates based on age, service, and gender. Adopted by the Board in May 2015 in conjunction with the five year experience study for the period ending June 30, 2014.
- Mortality Rates after Retirement— Males: RP-2000 Combined Healthy mortality table for males with White Collar Adjustments. Generational mortality improvements in accordance with Scale BB from the table's base year of 2000. Females: GRS Southwest Region Teacher Mortality Table, scaled at 105%. Generational mortality improvements in accordance with Scale BB from the table's base year of 2012.

The long-term expected rate of return on pension plan investments was determined using a building block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

June 30, 2018 and 2017 (in thousands)

The target asset allocation and best estimates of arithmetic expected real rates of return for each major asset class as of June 30, 2017 and 2016, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return 2017	2016
Domestic Equity	38.5%	7.5%	6.2%
International Equity	19.0%	8.5%	5.8%
Fixed Income	23.5%	2.5%	6.3%
Real Estate*	9.0%	4.5%	7.0%
Alternative Assets	10.0%	6.1%	6.6%
Total	100.0%		

* The Real Estate total expected return is a combination of US Direct Real Estate (unleveraged) and US Value Added Real Estate (unleveraged).

Discount Rate

The discount rate used to measure the total pension liability at June 30, 2017 and 2016 was 7.5%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, determined by State statutes. Projected cash flows also assume the State of Oklahoma will continue contributing 5% of sales, use and individual income taxes, as established by statute. Based on these assumptions, OTRS' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following table presents the net pension liability of the Center calculated using the discount rate of 7.5%, as well as what the Center's net pension liability would be if OTRS calculated the total pension liability using a discount rate that is 1-percentage point lower (6.5%) or 1-percentage point higher (8.5%) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
June 30, 2018			
Center's net pension liability	$ 359,147	$ 252,920	$ 171,986
June 30, 2017			
Center's net pension liability	$ 409,598	$ 312,670	$ 231,376

June 30, 2018 and 2017 (in thousands)

Oklahoma Law Enforcement Retirement System

Certain Center employees are members of the OLERS. The Center has recorded the following amounts related to these employees participation in OLERS:

	2018	2017
Net pension liability	$ 2,759	$ 3,136
Deferred outflows related to pensions	1,404	1,876
Deferred inflows related to pensions	236	255
Pension expense	857	670

Because the Center's participation in OLERS is not material to the Center's financial statements, additional information and disclosures are not included in these financial statements. OLERS issues a publicly available annual financial report that can be obtained at www.olers.state.ok.us.

Oklahoma Public Employees Retirement System

Certain Center employees are members of the OPERS. The Center has recorded the following amounts related to these employees participation in OPERS:

	2018	2017
Net pension liability	$ 54	$ 162
Deferred outflows related to pensions	64	147
Deferred inflows related to pensions	40	135
Pension expense	(90)	(70)

Because the Center's participation in OPERS is not material to the Center's financial statements, additional information and disclosures are not included in these financial statements. OPERS issues a publicly available annual financial report that can be obtained at www.opers.ok.gov.

Defined Contribution Plan—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 30 days of employment. This is a one-time election, and if an employee does not make an election, the employee defaults into OTRS and will also participate in Plan 1 or 2 of the Defined Contribution Plan noted below. Hourly employees not participating in OTRS are also included in this plan; however, their option to not participate in OTRS is revocable and can be changed upon their request.

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

Funding Policy
The ORP provisions and contribution requirements are established and may be amended by the Center. The Center's contribution rate is 9% of covered payroll and is determined by the previously mentioned plan document. The Center's contributions to the ORP for the years ended June 30, 2018 and 2017 were approximately $22,489 and $23,938, respectively. Employees do not contribute to the ORP. The vesting period for the ORP is three years. For employees hired on or after July 1, 2016, there is a one-year waiting period before participation in the plan begins.

Defined Contribution Plan—Plan 1 and Plan 2

Plan Descriptions
For employees participating in OTRS, contributions to the defined contribution plan fall into Plan 1 or Plan 2 depending upon the employee's participation date. The Center contributes, at the direction of the participating employee, to the master record keeper, Fidelity Investments Company. Plans 1 and 2 are non-contributory defined contribution plans, and the retirement investment firm is separately managed.

Participants in the plan have the ability to direct their investments to a variety of different fund options and companies within the plan. The authority for contributing to the Defined Contribution plans is contained in the following policy document, "University of Oklahoma Defined Contribution Retirement Plan," amended and restated July 2004.

Funding Policy
Plan 1 and Plan 2 provisions and contribution requirements are established and may be amended by the Center. The Center's contribution rate is 15% for Plan 1 and 8% for Plan 2 of covered payroll and is determined by the previously mentioned plan document. Total contributions to Plans 1 and 2 were $10,129 and $7,031, respectively, for the year ended June 30, 2018. Total contributions to Plans 1 and 2 were $10,986 and $7,049, respectively, for the year ended June 30, 2017. Employees do not contribute to Plans 1 and 2. The vesting period for both Plan 1 and Plan 2 is three years. For employees hired on or after July 1, 2016, there is a one-year waiting period before participation in the plan begins.

June 30, 2018 and 2017 (in thousands)

Note 14 - Other Postemployment Benefits

As a result of the adoption of GASB Statement No. 75, the net position as of July 1, 2017 was restated. GASB Statement No. 75 replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. On July 1, 2017, the net OPEB obligation recorded in accordance with GASB Statement No. 45 of $101,436 was removed and the total OPEB liability of $195,696 was recorded in accordance with GASB Statement No. 75. The 2017 financial statements were not restated because information concerning the total OPEB liability at July 1, 2016 was not available. The effect on the beginning net position as of July 1, 2017 was as follows:

Net position June 30, 2017, as previously reported	$ 884,489
Remove net OPEB obligation	101,436
Add total OPEB liability	(195,696)
Net position July 1, 2017, as restated	$ 790,229

Plan Description

The Center's retiree insurance plan is considered a single-employer defined benefit plan and does not issue a standalone financial reporting. The Center, with approval by the Board of Regents, has the authority to establish and amend the benefit provisions and financing arrangements. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

Benefits Provided

Employees eligible for retirement that have been enrolled in the Center's medical insurance plan for five years immediately prior to retirement are eligible to participate in a group medical insurance plan as a retiree. Premiums are subsidized for employees hired prior to January 1, 2008 as described below. Employees hired on or after January 1, 2008 may participate in the retiree medical plan at the group rates at the retiree's own expense. Retirees may also elect the Center's medical coverage for eligible dependents at their own expense. 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. After retirees become eligible for Medicare primary coverage, the Center's insurance continues in a secondary role.

June 30, 2018 and 2017 (in thousands)

There are currently two eligible groups for subsidized retiree medical benefits.

- Group 1—Current retirees, employees currently eligible for retirement on or before December 31, 2015. The Center provides a 100% premium subsidy for retirees in this group.

- Group 2—Current employees that became eligible for retirement on or after January 1, 2016. The Center will subsidize premiums for retirees in this group 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%

Employees eligible for retirement that have been enrolled in the Center's dental insurance plan for five years immediately prior to retirement are eligible to participate in a group dental plan as a retiree. Dental premiums will be fully subsidized by the Center for employees hired prior to January 1, 2008. Retirees may also elect the Center's dental coverage for eligible dependents at their own expense.

On June 30, 2018, there were 1,549 active employees eligible for subsidized benefits and 1,132 were retired and participated in the Center's retiree insurance plan. All active employees who are eligible for subsidized benefits are assumed to elect coverage at retirement and are included in the calculation of the total OPEB liability. Active employees without subsidized benefits, who are required to pay the full cost of coverage, are not included in the calculation of the total OPEB liability.

Total OPEB Liability

The Center's total OPEB liability of $204,855 was measured as of June 30, 2018, and was determined by an actuarial valuation as of that date. The following schedule shows the changes in the Center's total OPEB liability for fiscal year 2018:

	2018
Total OPEB Liability, July 1, 2017	$ 195,696
Service cost	3,231
Interest	7,050
Changes in assumptions	(5,085)
Differences between expected an actual experience	8,019
Benefit payments	(4,056)
Net change	9,159
Total OPEB Liability, June 30, 2018	$ 204,855

June 30, 2018 and 2017 (in thousands)

Actuarial Assumptions

The total OPEB liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions:

- Inflation—2.50%
- Salary Increases—Composed of 3.25% inflation, plus a service-related component ranging from 0.00% to 8.00% based on years of service.
- Discount Rate—3.58% as of July 1, 2017 and 3.87% as of June 30, 2018, based on the Bond Buyer Go 20-Bond Municipal Bond Index.
- Healthcare Trend Rates—8.50% for 2019, decreasing annually to an ultimate rate of 4.50% for 2026 and later years.
- Mortality—RPH-2017 Total Dataset Mortality table fully generational using scale MP-2017.
- Experience Study—Completed for fiscal year ending June 30, 2015 with data through January 1, 2015.
- Retiree Share of Benefit Related Costs—Projections of sharing benefit-related costs between subsidized retiree groups and all other retirees follow established practices as described above.

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rate and Discount Rate

The following table presents the total OPEB liability of the Center calculated using the healthcare trend rate at an initial rate of 8.5%, decreasing to an ultimate rate of 4.5%, as well as what the Center's total OPEB liability would be if calculated using a healthcare trend rate that is 1 percentage point lower (7.5% decreasing to 3.5%) or 1 percentage point higher (9.5% decreasing to 5.5%) than the current rate:

	1% Decrease (7.5% decreasing to 3.5%)	Current Healthcare Trend Rate (8.5% decreasing to 4.5%)	1% Increase (9.5% decreasing to 5.5%
June 30, 2018			
Total OPEB liability	$ 173,202	$ 204,855	$ 244,708

The following table presents the total OPEB liability of the Center calculated using the discount rate of 3.87%, as well as what the Center's total OPEB liability would be if calculated using a discount rate that is 1 percentage point lower (2.87%) or 1 percentage point higher (4.87%) than the current rate:

	1% Decrease (2.87%)	Current Discount Rate (3.87%)	1% Increase (4.87%)
June 30, 2018			
Total OPEB liability	$ 241,563	$ 204,855	$ 175,821

June 30, 2018 and 2017 (in thousands)

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB

For the years ended June 30, 2018 and 2017, the Center recognized OPEB expense of $11,015 and $10,184, respectively. At June 30, 2018, the Center reported deferred outflows of $6,014 resulting from differences between expected and actual experience, and deferred inflows of $3,814 resulting from changes of actuarial assumptions. Deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense using the average expected remaining service life of the plan as follows:

Year Ended June 30:	Deferred Outflows	Deferred Inflows
2019	$ 2,005	$ (1,271)
2020	2,005	(1,271)
2021	2,004	(1,272)
	$ 6,014	$ (3,814)

The average expected remaining service life of the plan is determined by taking the calculated total future service years of the plan divided by the number of people in the plan including retirees. The average expected remaining service life of the plan equals 4 years at June 30, 2018.

Oklahoma Teachers Retirement System

There is a closed group of 67 retirees at June 30, 2018, who are enrolled in the Oklahoma State and Education Employees Group Insurance Board (OSEEGIB) plans. The Center pays the premiums for these retirees. The liability (asset) for these retirees is included in the OTRS valuation. The Center has recorded the following amounts related to these retirees participation in the OTRS:

	2018
Net OPEB asset	$ 1,673
Deferred outflows related to OPEB	242
Deferred inflows related to OPEB	1,367
OPEB expense	(62)

Because the Center’s participation in OTRS is not material to the Center’s financial statements, additional information and disclosures are not included in these financial statements. OTRS issues a publicly available annual financial report that can be obtained at www.ok.gov/TRS/.

June 30, 2018 and 2017 (in thousands)

Oklahoma Public Employees Retirement System

Certain Center retirees are members of the OPERS. During 2018, the Center recorded the following amounts related to these retirees:

	2018
Net OPEB liability	$ 1
Deferred outflows related to OPEB	3
Deferred inflows related to OPEB	5
OPEB expense	1

Because the Center's participation in OPERS is not material to the Center's financial statements, additional information and disclosures are not included in these financial statements. OPERS issues a publicly available annual financial report that can be obtained at www.opers.ok.gov.

Note 15 - Affiliates and Related Party Transactions

HCA Health Services of Oklahoma, Inc. d/b/a OU Medical Center: The Center had 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 OU Medical System as well as campus services and space rental in properties owned by the Center. Total sales and services under the above transactions were approximately $23,318 and $38,683 for fiscal years 2018 and 2017, respectively. At June 30, 2018 and 2017, amounts due from HCA for auxiliary enterprises were $0 and $719, respectively, and for private contracts were $0 and $5,210, respectively. These amounts are included in accounts receivable, net of allowances, on the statements of net position. As of February 1, 2018, ownership and management of the OU Medical System transferred from HCA to OU Medicine, Inc.

OU Medicine, Inc. d/b/a OU Medical Center: On February 1, 2018, the Center entered into several contracts with OU Medicine, Inc. d/b/a OU Medical Center (OUMI) for the Center's staff to provide in-service education and administrative duties within the OU Medical System as well as campus services and space rental in properties owned by the Center. Total sales and services under the above transactions were approximately $18,592 for fiscal year 2018. At June 30, 2018, amounts due from OUMI for auxiliary enterprises were $2,109 and for private contracts were $7,263. These amounts are included in accounts receivable, net of allowances, on the statements of net position.

The Academic Physicians Insurance Company: The Academic Physicians Insurance Company (the Captive), formed in 2006, is a nonprofit 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. As of February 1, 2018, the Captive became a non-member, nonprofit, public benefit corporation. Premiums paid by the Center to obtain professional liability coverage from the Captive totaled $10,044 and $10,711 for fiscal years 2018 and 2017, respectively, thus eliminating the Center's deductible expense for current and future claims.

Note 16 - The University of Oklahoma Foundation, Inc.

The Foundation is a public foundation organized to receive and administer gifts for the benefit of the Norman Campus and the Center. The Foundation expended on behalf of the Norman Campus and the Center approximately $199,826 and $129,707 in fiscal years 2018 and 2017, respectively, for facilities and equipment, salary supplements, general educational assistance, faculty awards, and scholarships. Of these expenditures, $19,127 and $18,444 in fiscal years 2018 and 2017, respectively, are reflected in the Center's financial statements as revenue. The amounts not reflected herein consist of direct Foundation expenditures for general university educational purposes and amounts reflected in the Norman Campus financial statements.

The Center's investments are also held by the Foundation (Note 2).

Note 17 - 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, educators' legal liability, crime, and property and casualty programs provided by the Office of Management and Enterprise Services Division of Capital Assets Management Risk Management Department (OMES Risk Management). In addition to these basic policies, the Center's Office of Enterprise Risk Management (ERM) establishes protocols/guidelines in risk identification assessment, risk avoidance, risk acceptance, and risk transfer.

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

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

- The buildings and contents are insured for replacement value. For most buildings, each loss incident is subject to a $500 deductible. A small portion of buildings are subject to a $100 deductible per loss.

- In addition, certain fine arts and valuable papers are covered under a separate policy of insurance.

- General liability and tort claim coverages (including comprehensive general liability, auto liability, personal injury liability, leased vehicles, and equipment) are provided to the Center by OMES Risk Management. Also included in OMES Risk Management coverages are Out-of-State Liability, Foreign General Liability and ACE Executive Services to employees traveling internationally in the course and scope of their employment. The Governmental Crime Policy has differing deductibles, ranging from $5 to $25, depending on the type of coverage invoked. 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 filed two claims with the State in the past three fiscal years.

- Educators' Legal Liability, with a $150 retention (deductible).

- Medical malpractice losses are insured by Academic Physicians Insurance Company, a non-member, nonprofit, public benefit corporation (Note 15).

To the best of the Center's knowledge, settled claims have not exceeded coverage in any of the three preceding 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, 2018 and 2017, the accrued workers' compensation liability totaled approximately $1,755 and $1,823, 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, 2018 and 2017, the required reserve was $400 and $357, respectively. The minimum cash balance is considered each year during the fringe benefit rate-setting process.

Effective July 1, 2013, the Center entered into an agreement for self-funded student health insurance. The plan is administered by a third party, and claims are processed by Blue Cross Blue Shield. The premiums for the insurance are paid by the student directly to Academic HealthPlans (AHP) into a fund managed by AHP. The claims and administrative expenses are paid as incurred directly from the fund. The Center records the cash balance of the fund in its financial statements, as well as an actuarially determined liability for incurred but not reported claims. As of June 30, 2018 and 2017, the cash balance for the plan was $826 and $235, respectively, which is included in cash and cash equivalents on the statements of net position, and the accrued liability for claims not yet reported totaled $185 and $157, respectively.

Effective January 1, 2015, the Center entered into an agreement for self-funded employee health insurance. As of January 1, 2018, the plan is administered and claims are paid by Blue Cross Blue Shield. The premiums for the insurance are collected and recorded in a self-insurance fund at the Center. The claims and administrative expenses are paid as incurred directly from the fund. The Center records the cash balance of the fund in its financial statements, as well as an actuarially determined liability for incurred but not reported claims. As of June 30, 2018 and 2017, the cash balance for the plan was $6,462 and $6,111, respectively, which is included in cash and cash equivalents on the statements of net position, and the accrued liability for claims not yet reported totaled $4,579 and $3,657, respectively.

Effective January 1, 2017, the Center entered into an agreement for self-funded employee dental insurance. The plan is administered and claims are paid by Delta Dental. The premiums for the insurance are collected and recorded in a self-insurance fund at the Center. The claims and administrative expenses are paid as incurred directly from the fund. The Center records the cash balance of the fund in its financial statements, as well as an actuarially determined liability for incurred but not reported claims. As of June 30, 2018 and 2017, the cash balance for the plan was $520 and ($3), respectively, which is included in cash and cash equivalents on the statements of net position, and the accrued liability for claims not yet reported totaled $179 and $168, respectively.

Note 18 - Contingencies and Commitments

At June 30, 2018 and 2017, the Center had outstanding commitments under construction contracts of $1,420 and $529, respectively.

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

The U.S Department of Justice and other federal agencies are increasing resources dedicated to regulatory investigation and compliance audits of health care providers. The Center is subject to these regulatory efforts. Management is currently unaware of any regulatory matters, which will have material adverse effect on the Center's financial position or results of operations.

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.

On August 31, 2018, a notice was sent to Oklahoma Health Care Authority (OHCA) from the Centers for Medicare and Medicaid Services (CMS) which indicated that a five-year extension to SoonerCare has been approved. Along with this approval, a one-year transition period for the Graduate Medical Education Program (GME) was approved. However, CMS indicated that they are issuing a disallowance of federal matching funds that Oklahoma claimed in 2017, and those payments will need to be recovered by CMS. The Center has not received official notice from OHCA and the probability of returning the funds is uncertain at this time. The estimated amount of the return of funds is $16,500.

June 30, 2018 and 2017 (in thousands)

Note 19 - Functional Classifications

For the years ended June 30, 2018 and 2017, the following table represents operating expenses within functional classification:

	2018	2017
Function:		
Instruction	$ 220,223	$ 223,024
Research	88,447	92,098
Public service	23,574	22,094
Academic support	35,303	49,242
Student services	5,616	5,894
Institutional support	23,347	25,713
Operations and maintenance of plant	32,537	32,588
Scholarships/Fellowships	738	804
Clinical operations	571,924	531,220
Agency	3	4
Auxiliary enterprises	16,318	11,726
Service unit	19,167	19,430
Plant	3,944	2,407
Total operating expenses	$ 1,041,141	$ 1,016,244

Note 20 - Subsequent Events

The Center has evaluated events and transactions that occurred subsequent to June 30, 2018, through October 22, 2018, the date these financial statements were available to be issued, for potential recognition or disclosure in the financial statements. With the exception of the GME contingency disclosed on Note 18, there were no additional subsequent events requiring recognition or disclosure.

Note 21 - Correction of Error

For the year ending June 30, 2018, the Center identified misstatements within the 2017 financial statements related to the components of net position. The individual components of restricted, expendable – education and general and unrestricted were not properly reported. The Center identified certain amounts previously reported as unrestricted expenditures should have been applied toward restricted resources.

The Center restated its previously issued financial statements to appropriately reflect the June 30, 2017 net position by individual components. The previously reported amount for restricted, expendable – education and general of $170,647 decreased by $161,887 to show the corrected balance of $8,760. The previously reported balance of unrestricted net position of $226,388 increased by $161,887 to show a corrected balance of $388,275. Net position was properly reported in total.

Required Supplementary Information
June 30, 2018 and 2017

The University of Oklahoma Health Sciences Center

Last 10 Fiscal Years *
(Dollar Amounts In Thousands)

	2018
Service cost	$ 3,231
Interest	7,050
Changes in assumptions	(5,085)
Differences between expected an actual experience	8,019
Benefit payments	(4,056)
Net change in total OPEB liability	9,159
Total OPEB Liability - beginning	195,696
Total OPEB Liability - ending	$ 204,855
Covered employee payroll	$ 325,233
Total OPEB Liability as a percentage of covered payroll	63.0%

Notes to Schedule

No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 75.

* Only the current fiscal year is presented because 10-year data is not yet available.

Last 10 Fiscal Years *
(Dollar Amounts In Thousands)

	2018	2017	2016	2015
Center's proportion of the net pension liability	3.8%	3.6%	3.4%	3.4%
Center's proportionate share of the net pension liability	$ 252,920	$ 312,670	$ 215,886	$ 196,223
Center's covered-employee payroll	159,862	156,440	159,865	156,304
Center's proportionate share of the net pension liability as a percentage of its covered-employee payroll	158.2%	199.9%	135.0%	125.5%
Plan fiduciary net position as a percentage of the total pension liability	69.3%	62.2%	70.3%	72.4%

Notes to Schedule

* Only the current and prior three fiscal years are presented because 10-year data is not yet available.

Last 10 Fiscal Years
(Dollar Amounts in Thousands)

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Contractually required contribution	$ 13,799	$ 13,531	$ 13,734	$ 13,364	$ 13,291	$ 13,174	$ 13,279	$ 12,711	$ 12,480	$ 11,714
Contributions in relation to the contractually required contribution	(13,799)	(13,531)	(13,734)	(13,364)	(13,291)	(13,174)	(13,279)	(12,711)	(12,480)	(11,714)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Center's covered-employee payroll	$ 159,862	$ 156,440	$ 159,865	$ 156,304	$ 155,156	$ 153,450	$ 154,379	$ 147,297	$ 148,491	$ 149,100
Contributions as a percentage of covered-employee payroll	8.63%	8.65%	8.59%	8.55%	8.57%	8.59%	8.60%	8.63%	8.40%	7.86%

Other Supplementary Information
Year Ended June 30, 2018

The University of Oklahoma Health Sciences Center

CPAs & BUSINESS ADVISORS

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of The University of Oklahoma Health Science Center (the Center), an organizational unit of the Regents of the University of Oklahoma (the Regents), which is a component unit of the State of Oklahoma, which comprise the statement of net position as of June 30, 2018, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements, and have issued our report thereon dated October 22, 2018. Our report includes an emphasis of matter paragraph describing the acknowledgement that the Center is an organizational unit of the Regents and these financial statements reflect only the assets, liabilities, and revenues and expenses of the Center and not the Regents as a whole.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Center's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2018-A, that we consider to be a significant deficiency.

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

The Center's Response to Finding
The Center's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Center's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report
The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Eide Bailly LLP

Oklahoma City, Oklahoma
October 22, 2018

EideBailly

CPAs & BUSINESS ADVISORS

Independent Auditor's Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance Required by the Uniform Guidance

Board of Regents of the University of Oklahoma
The University of Oklahoma Health Science Center
Norman, Oklahoma

Report on Compliance for Each Major Federal Program
We have audited The University of Oklahoma Health Science Center's (Center) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Center's major federal programs for the year ended June 30, 2018. The Center's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility
Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility
Our responsibility is to express an opinion on the compliance for each of the Center's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Center's compliance.

Opinion on Each Major Federal Program
In our opinion, the Center complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Report on Internal Control over Compliance
Management of the Center is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Center's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses and significant deficiencies may exist that have not been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as 2018-001 to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2018-002 and 2018-003 to be significant deficiencies.

The Center's responses to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Center's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Eide Bailly LLP

Oklahoma City, Oklahoma
October 22, 2018

Sponsor/Federal Agency	Direct/Pass through	CFDA	Award Number		Expenditures	Subrecipient Expenditures
Department of Agriculture						
Department of Agriculture	Direct	10.314	20176800126355		$ **176,545**	$ 28,204
Department of Defense						
Dept of the Army	Direct	12.420		576,557		
Johns Hopkins University	Pass-Through	12.420	2001214293	408	576,965	
Henry M Jackson Found Adv Military Med	Pass-Through	12.750	HU0001-16-2-0006		36	
					577,001	
National Science Foundation						
University of Oklahoma - Norman	Pass-Through	47.070	IIS1208639		47,273	
National Science Foundation	Direct	47.074			65,096	
National Science Foundation	Direct	47.076			2,833	
Total National Science Foundation					**115,202**	
Department of Education						
Dept of Education	Direct	84.324	R324A120232	27,637		4,080
Natl Ctr for Special Education	Direct	84.324	R324A160226	292,642	320,279	11,838
Total Department of Education					**320,279**	15,918
Department of Health and Human Services						
University of Oklahoma - Norman	Pass-Through	93.077	2018-16	5,011		
Univ of Texas MD Anderson Cancer Center	Pass-Through	93.077	P50CA180906	35,867		
Natl Inst on Drug Abuse	Direct	93.077	R03DA041928	141,526	182,404	
Maternal & Child Health Bureau	Direct	93.110	R40MC29449	4,255		
Univ of Arkansas for Medical Sciences	Pass-Through	93.110	51952OUHSCPEDS	35,403	39,658	
Natl Inst of Dental & Craniofacial Research	Direct	93.121		190,053		5,655
Penn State University	Pass-Through	93.121	UOKDE024964	109,411	299,464	
Maternal & Child Health Bureau	Direct	93.127	H33MC06689	118,710		
University of Arizona	Pass-Through	93.127	307872	147,794	266,504	
University of California, San Francisco	Pass-Through	93.135	9468SC		8,850	
Oregon State University	Pass-Through	93.136	P0430AC		35,406	
Agency for Healthcare Research & Quality	Direct	93.226		3,634,896		112,272
Rutgers University	Pass-Through	93.226	6216	22,474	3,657,370	

Sponsor/Federal Agency	Direct/Pass through	CFDA	Award Number		Expenditures	Subrecipient Expenditures
University of California, San Diego	Pass-Through	93.242	32677694		3,203	
Natl Inst of Occupational Safety and Health	Direct	93.262	R01OH010241		76,004	
Natl Inst on Alcohol Abuse & Alcoholism	Direct	93.273	R01AA012207		452,778	193,368
Natl Inst on Drug Abuse	Direct	93.279		14,369		
Oklahoma Medical Research Foundation	Pass-Through	93.279	029806	4,563		
Univ of Texas MD Anderson Cancer Center	Pass-Through	93.279	R01DA033289	210		
Univ of Texas MD Anderson Cancer Center	Pass-Through	93.279	R34DA037391	1,426		
Alere Wellbeing, Inc.	Pass-Through	93.279	R21DA042960	10,343	30,911	
Natl Ctr on Minority Health & Health Disparities	Direct	93.307		1,178,388		61,702
Washington State University	Pass-Through	93.307	U54MD011540	260,412		
Univ of Texas Health Sciences Ctr	Pass-Through	93.307	0013081C	148,410	1,587,210	
Office of the Director, NIH	Direct	93.351			1,734,929	366,123
Cincinnati Children's Hospital Medical Center	Pass-Through	93.361	132514	25,426		
University of Pittsburgh	Pass-Through	93.361	0043908-1260614	9,081	34,507	
University of South Florida	Pass-Through	93.389	0000242071		40,746	
Natl Cancer Inst	Direct	93.393		2,611,006		371,657
Univ of Texas MD Anderson Cancer Center	Pass-Through	93.393	3001090700	3,582		
Medical Univ of South Carolina	Pass-Through	93.393	MUSC170448C819	15,306	2,629,894	
Natl Cancer Inst	Direct	93.394		313,433		
American College of Radiology	Pass-Through	93.394	RTOG3501	665		
University of Oklahoma - Norman	Pass-Through	93.394	2016-86	6,525		
Univ of Texas MD Anderson Cancer Center	Pass-Through	93.394	U01CA200462	31,063	351,686	
Natl Cancer Inst	Direct	93.395		2,814,167		22,982
Brigham and Women's Hospital	Pass-Through	93.395	OK003	356,921		
Children's Hospital of Philadelphia	Pass-Through	93.395	U10CA180886	106,873		
ECOG-ACRIN	Pass-Through	93.395	U10CA180820	113,321		
NRG Oncology Foundation, Inc.	Pass-Through	93.395		835,386		21,800
NRG Oncology Foundation, Inc.	Pass-Through	93.395	UG1CA189867	128,502		
NRG Oncology Foundation, Inc.	Pass-Through	93.395	U10CA180868	96,627		
Southwest Oncology Group	Pass-Through	93.395	CA32102	12,852	4,464,649	

Sponsor/Federal Agency	Direct/Pass through	CFDA	Award Number		Expenditures	Subrecipient Expenditures
Natl Cancer Inst	Direct	93.396			1,797,586	574,523
Natl Cancer Inst	Direct	93.397		162,517		
University of Oklahoma - Norman	Pass-Through	93.397	P20CA202921	157,943	320,460	
NRG Oncology Foundation, Inc.	Pass-Through	93.399	U10CA180860-01		2,051	
Association of University Centers on Disabilities	Pass-Through	93.424	28188812		175,902	56,530
Academic Pediatric Association	Pass-Through	93.733	NH23IP0009500400		61,005	
Iowa Healthcare Collaborative	Pass-Through	93.779	1L1CMS331451010004		333,739	
OK Dept of Mental Health Substance Abuse Services	Pass-Through	93.788	4529055813		367,321	
Natl Heart, Lung and Blood Institue	Direct	93.837		4,163,809		415,643
Boston Children's Hospital	Pass-Through	93.837	GENFD0001219271	159,337		
New England Research Institute	Pass-Through	93.837	U01HL107407	44,611		
National Marrow Donor Program	Pass-Through	93.837	06DON	1,135		
Seattle Children's Hospital Research Foundation	Pass-Through	93.837	11303SUB	12,381		
Univ of Alabama at Birmingham	Pass-Through	93.837	U01HL120338	4,821		
University of California, San Diego	Pass-Through	93.837	99198911	66,082		
Univ of Texas Health Sciences Ctr	Pass-Through	93.837	6017SC17024	96,940		
Washington State University	Pass-Through	93.837	127932G003785	32,178		
Washington State University	Pass-Through	93.837	127880G003774	33,532	4,614,826	
Natl Heart, Lung and Blood Institue	Direct	93.838		408,004		
Boston Children's Hospital	Pass-Through	93.838	U01HL107681-04	8,632	416,636	
Natl Heart, Lung and Blood Institue	Direct	93.839	K01HL135466	131,742		
Emory University	Pass-Through	93.839	U01HL128566	870		
National Marrow Donor Program	Pass-Through	93.839	BMTCTN0801	2,563	135,175	
Natl Inst of Arthritis & Musculoskeletal Disease	Direct	93.846		628,022		
Oklahoma Medical Research Foundation	Pass-Through	93.846	026101OUHSC	5,658	633,680	
Natl Inst of Diabetes & Digestive Kidney Disease	Direct	93.847		920,904		
Children's Mercy Hospital - Kansas City, MO	Pass-Through	93.847	130018	806		
Emory University	Pass-Through	93.847	T891132	7,559		
George Washington University	Pass-Through	93.847	U01DK061230	282,173		176

Sponsor/Federal Agency	Direct/Pass through	CFDA	Award Number		Expenditures	Subrecipient Expenditures
Nationwide Children's Hospital	Pass-Through	93.847	7000430518	11,375		
Research Foundation of State Univ of New York	Pass-Through	93.847	113894677867	2,103		
Texas Biomedical Research Institute	Pass-Through	93.847	43726	108,158		
University of Colorado	Pass-Through	93.847	FY17001022	32,711		
University of South Florida	Pass-Through	93.847	TrialNet	40,918		
University of Texas Rio Grande Valley	Pass-Through	93.847	R21DK1059913	14,246	1,420,953	
Natl Inst of Neurological Disorders and Stroke	Direct	93.853		1,071,555		169,062
Medical College of Wisconsin	Pass-Through	93.853	R21NS099789	62,198	1,133,753	
Natl Inst of Allergy & Infectious Disease	Direct	93.855		2,270,184		97,368
Benaroya Research Institute	Pass-Through	93.855	0109805s32	39,958		
Massachusetts General Hospital	Pass-Through	93.855	225488	3,577		
Oklahoma Medical Research Foundation	Pass-Through	93.855	017014OUHSCJM	390,907		
Oklahoma Medical Research Foundation	Pass-Through	93.855	0170-14OUHSC/JB	353,927		
Oklahoma Medical Research Foundation	Pass-Through	93.855	017013065OUHSCLZ	19,952		
Oklahoma Medical Research Foundation	Pass-Through	93.855	017013101OUHSCWH	26,196		
Oklahoma Medical Research Foundation	Pass-Through	93.855	A217F	8,535		
Oklahoma Medical Research Foundation	Pass-Through	93.855	017014065OUHSCLZ	45,095		
Stanford University	Pass-Through	93.855		140,881	3,299,212	
Natl Inst of General Medical Sciences	Direct	93.859		10,576,115		2,553,830
Laureate Institute for Brain Research	Pass-Through	93.859	P20GM121312	53,796		
Oklahoma Medical Research Foundation	Pass-Through	93.859	02490505OUHSC	231,066		
Oklahoma Medical Research Foundation	Pass-Through	93.859	024905072OUHSC	62,718		
Oklahoma State University Center for Health Sciences	Pass-Through	93.859	1-567837-01	28,352		
Oklahoma State University Center for Health Sciences	Pass-Through	93.859	581138-PP-01	9,631		
Oklahoma State University Center for Health Sciences	Pass-Through	93.859	57113701	618,474		
Oklahoma State University	Pass-Through	93.859	5555670	28,106		
Oklahoma State University	Pass-Through	93.859	5554678	12,520		
Oklahoma State University	Pass-Through	93.859	P20GM103648	146,291		
University of Oklahoma - Norman	Pass-Through	93.859	2018-05	546,131		
University of Oklahoma - Norman	Pass-Through	93.859	201724	19,822	12,333,022	

Sponsor/Federal Agency	Direct/Pass through	CFDA	Award Number	Expenditures		Subrecipient Expenditures
Natl Inst of Child Health & Human Development	Direct	93.865		339,595		97,747
Office of the Director, NIH	Direct	93.865		402,971		
Loma Linda University	Pass-Through	93.865	2150113UO	75,120		
Miyazaki Enterprises	Pass-Through	93.865	1-0002	12,591		
Univ of Arkansas for Medical Sciences	Pass-Through	93.865	51460	38,470		
University of Michigan	Pass-Through	93.865	3004694008	41,791		
University of Minnesota	Pass-Through	93.865	R01HD080444	189,795		
University of Pittsburgh	Pass-Through	93.865	0042816	46,806		
Vanderbilt University	Pass-Through	93.865	UNIV59500	13,215		
Yale University	Pass-Through	93.865	GR101952	266,023	1,426,377	
Natl Inst on Aging	Direct	93.866		3,240,595		484,322
Cleveland Clinic Foundation	Pass-Through	93.866	R21AG052849	1,519		
Oklahoma Medical Research Foundation	Pass-Through	93.866	029603OUHSC	9,516		
University of California Los Angeles	Pass-Through	93.866	1558GVA160	57,333		
University of California Los Angeles	Pass-Through	93.866	AAA111	332		
University of Colorado	Pass-Through	93.866	FY16.001.013	9,954		
University of Michigan	Pass-Through	93.866	P01AG051442	518,310		
University of New Mexico	Pass-Through	93.866	76533587X6	91,318		
University of Washington	Pass-Through	93.866	UWSC9853	103,716	4,032,593	
Natl Eye Inst	Direct	93.867		4,810,553		246,568
Children's Hospital of Philadelphia	Pass-Through	93.867	3209850817	20,830		
Jaeb Center for Health Research	Pass-Through	93.867	ATS17	12,129		
University of Michigan	Pass-Through	93.867	3003705558	58,888	4,902,400	
Oklahoma State Department of Health	Pass-Through	93.870	3409021758	623,911		76,140
Oklahoma Department of Human Services	Pass-Through	93.870	3409020651	562,919	1,186,830	
Univ of North Texas Health Sciences Center	Pass-Through	93.879	UG54LM012345	24,737		
Univ of North Texas Health Sciences Center	Pass-Through	93.879	HS7630000137776	19,748	44,485	
Cherokee Nation of Oklahoma	Pass-Through	93.933			168,791	

Sponsor/Federal Agency	Direct/Pass through	CFDA	Award Number		Expenditures	Subrecipient Expenditures
Natl Cancer Inst	Direct	93.xxx			1,792,569	440,498
Food and Drug Administration	Direct	93.xxx	HHSF223201210008I		44,270	
Atox Bio Ltd.	Pass-Through	93.xxx	ATB202		750	
Duke Clinical Research Institute	Pass-Through	93.xxx	HHSN275201000003I		140	
Mathematica Policy Research	Pass-Through	93.xxx	50351X05367		4,264	
Social & Scientific Systems, Inc.	Pass-Through	93.xxx	HHSN261200800001E		155,944	
Total Department of Health and Human Services					**56,700,907**	**6,367,966**
Total Research Cluster					**57,889,934**	**6,412,088**
Other Programs						
Department of Agriculture						
Oklahoma Department of Agriculture	Pass-Through	10.170	0409017582		17,580	
Department of Agriculture	Direct	10.545	FSNSNAPFSUPOK		64,384	
Oklahoma Department of Human Services	Pass-Through	10.561	209340		1,403,947	
Total Department of Agriculture					**1,485,911**	
Department of Defense						
Defense Intelligence Agency	Direct	12.598	HHM4021410007		**111,808**	14,783
Department of Justice						
Office of Justice Programs	Direct	16.543			862,893	16,809
Oklahoma District Attorneys Council	Pass Through	16.575	2017VOCAOUHSC178	74,001		
Oklahoma District Attorneys Council	Pass Through	16.575	2017VOCAOUHSC201	206,256		
Oklahoma District Attorneys Council	Pass Through	16.575	2017VOCAOUHSC090	80,120	360,377	
Office of Justice Programs	Direct	16.731	2015MUMUK011		1,568,737	
Total Department of Justice					**2,792,007**	**16,809**
US Embassy	Direct	19.900	SRS50016CA182		**57,042**	
Department of Education	Direct	84.325	H325K120310		**144,593**	

Sponsor/Federal Agency	Direct/Pass through	CFDA	Award Number	Expenditures		Subrecipient Expenditures
Department of Health and Human Services						
Oklahoma State Department of Health	Pass Through	93.069	3409017116		5,959	
Maternal and Child Health Bureau	Direct	93.110		770,111		18,736
Univ of Arkansas for Medical Sciences	Pass Through	93.110		74,936		
Univ of Texas Health Sciences Center	Pass Through	93.110	0012728A	21,582		
American College of Obstetricians/Gynecologists	Pass Through	93.110	UC4MC28042	37,820	904,449	
Parkland Health and Hospital System	Pass Through	93.145	OTHER9912		153,334	44,388
HIV/Aids Bureau	Direct	93.153	H12HA24834		512,522	
Bureau of Health Professions	Direct	93.191	D40HP26871-		471,821	
Univ of Kansas Medical Center Research Inst	Pass Through	93.211	Z1N00030		15,455	
Center for Mental Health Services	Direct	93.243	U79SM061278	11,931		
Okla Dept of Mental Health & Substance Abuse Services	Pass Through	93.243	4529053442	12,802		
Okla Dept of Mental Health & Substance Abuse Services	Pass Through	93.243	4529053713	50,026	74,759	
Health Resources & Services Administration	Direct	93.253	H4BHS15502		198,288	
Natl Inst of Occupational Safety & Health	Direct	93.262	T03OH008614	60,981		
Univ of Texas Health Sciences Center	Pass Through	93.262	0011059C	8,470	69,451	
Association of Schools of Public Health	Pass Through	93.283	S5064	54,309		
Univ of Texas Health Sciences Center	Pass Through	93.283	0011472C	22,573	76,882	
Association of University Centers on Disabilities	Pass Through	93.424	6NU38OT0001400402		4,213	
Tulane University	Pass Through	93.516	TULHSC5556631718		120,723	
Administration on Developmental Disabilities	Direct	93.632	90DDUC0028-01-00		408,837	22,626
Oklahoma Department of Human Services	Pass Through	93.643	18000499	32,389		
Oklahoma Department of Human Services	Pass Through	93.643	18000500	59,854	92,243	
Oklahoma Department of Human Services	Pass Through	93.652	16000634		156,665	
Oklahoma Department of Human Services	Pass Through	93.669	16000491		108,998	
A+ Government Solutions, Inc.	Pass Through	93.719	7760128000007		48,356	
Health Resources & Services Administration	Direct	93.732	M01HP31375		103,249	
Oklahoma Health Care Authority	Pass Through	93.767	8079003659		40,518	

Sponsor/Federal Agency	Direct/Pass through	CFDA	Award Number	Expenditures		Subrecipient Expenditures
Oklahoma Department of Human Services	Pass Through	93.778	0200259	15,558		
Oklahoma Department of Human Services	Pass Through	93.778	18000185	155,658		
Oklahoma Health Care Authority	Pass Through	93.778	8079002858	4,545,915	4,717,131	
Oklahoma State Department of Health	Pass Through	93.870	3409020652		603,501	475,559
Bureau of Health Professions	Direct	93.884	D55HP23210		46,491	
Oklahoma State Department of Health	Pass Through	93.917	3409019629	588,561		
Oklahoma State Department of Health	Pass Through	93.917	3409019633	434,976		
Oklahoma State Department of Health	Pass Through	93.917	3409019927	134,050	1,157,587	
HIV/Aids Bureau	Direct	93.918	H76HA00185		846,377	
Cherokee Nation of Oklahoma	Pass Through	93.933	ONARCH		47,742	
Okla Dept of Mental Health & Substance Abuse Services	Pass Through	93.959	4529053742		103,547	
Oklahoma Department of Human Services	Pass Through	93.994	0010299	23,831		
Oklahoma Department of Human Services	Pass Through	93.994	17000357	365,706		
Oklahoma Department of Human Services	Pass Through	93.994	0200441	118,573		
Oklahoma Department of Human Services	Pass Through	93.994	18000224	373,275		
Oklahoma State Department of Health	Pass Through	93.994	3409020834	92,980		
Oklahoma State Department of Health	Pass Through	93.994	3409019145	2,044		
Oklahoma State Department of Health	Pass Through	93.994	3409021762	62,267	1,038,676	
Natl Center for Child Abuse & Neglect	Direct	93.xxx	HHSP233201400045C		261,799	
Total Department of Heath and Human Services					**12,389,573**	**561,309**
Total Other Programs					**16,980,934**	**592,901**

Sponsor/Federal Agency	Direct/Pass through	CFDA	Award Number		Expenditures	Subrecipient Expenditures
Student Financial Assistance Cluster						
Department of Education	Direct	84.268			64,689,338	
University of Oklahoma - Norman (SEOG)	Pass Through	84.007	17-18002		49,000	
University of Oklahoma - Norman (Perkins)	Pass Through	84.038	17-18003		405,350	
University of Oklahoma - Norman (Pell)	Pass Through	84.063	17-18001		898,712	
Total Department of Education					**66,042,400**	
Department of Health and Human Services						
Health Professions Student Loan (HPSL & PCL) - Advances	Direct	93.342		948,186.00		
June 30, 2017 HPSL & PCL Programs	Loan Balance	93.342		5,337,931.00	6,286,117.00	
Health Professions Undergraduate Nursing Student Loan - Advances	Direct	93.364		244,000.00		
June 30, 2017 Nursing Student Loan Program	Loan Balance	93.364		1,654,171.00	1,898,171.00	
Total Department of Health and Human Services					**8,184,288**	**-**
Total Student Financial Aid & Federal Direct Student Loan Cluster					**74,226,688**	**-**
Total Federal Expenditures					**$ 149,097,556**	**$ 7,004,989**

Note 1

The purpose of the Schedule of Expenditures of Federal Awards (the Schedule) is to present a summary of the activities of the University of Oklahoma Health Sciences Center (the Center) which have been financed by the U.S. Government for the year ended June 30, 2018.

For purposes of the Schedule, federal awards have been classified into two types:

- Direct federal awards consisting of federal assistance and federal student financial aid, and
- Pass-through funds received from non-federal organizations made under federally sponsored programs conducted by those organizations.

Because the Schedule presents only a selected portion of the activities of the Center, it is not intended to and does not present the financial position, changes in fund balances, or the revenues, expenditures, and other changes of the Center.

Complete Catalog of Federal Domestic Assistance (CFDA) numbers are presented for those programs for which such numbers were available. CFDA prefixes and other identifying numbers are presented for programs for which a complete CFDA is not available.

The Center passes through certain Funds to subgrantee organizations. Expenditures incurred by the subgrantees and reimbursed by the Center are included in the Schedule.

The Center is also the subrecipient of federal funds that are reported as expenditures and included in the Schedule. The detailed Schedule of Federal Award Expenditures denotes funding sources for pass-through funds. Federal awards other than those indicated as pass-through are denoted as federal direct funds.

Note 2

For purposes of the Schedule, expenditures for federal award programs are recognized on a modified accrual basis of accounting. Federal financial assistance provided to subrecipients is treated as an expenditure when it is paid to the subrecipient.

Note 3

The University of Oklahoma Norman Campus administers the Pell, Supplemental Education Opportunity Grants, and The Perkins Loan student award programs for students attending the Norman and Health Sciences Center Campuses. Grant revenues and expenditures under such programs for students attending the Center campus is considered pass through funds and are, therefore, included in the Schedule.

Note 4

Under the Federal Direct Student Loan Program (Direct Loan Program), the U.S. Department of Education makes loans to enable a student or parent to pay the costs of the student's attendance at a postsecondary school. The Direct Loan Program enables an eligible student or parent to obtain a loan to pay for the student's cost of attendance directly from the U.S. Department of Education rather than through private lenders. The Center began participation in the Direct Loan Program on July 1, 2010. The Center administers the origination and disbursement of the loans to eligible students or parents. The Center is not responsible for the collection of these loans. Outstanding loans at June 30, 2018 under the Health Professions Student Loan Program (HPSL, PCL) and the Nursing Student Loan Program are $5,519,218 and $1,562,373, respectively.

Section I – Summary of Auditor's Results

Financial Statements	
Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weakness identified	No
Significant deficiencies identified not considered to be material weaknesses	Yes
Noncompliance material to financial statements noted	No
Federal Awards	
Internal control over major programs:	
Material weakness identified	Yes
Significant deficiencies identified not considered to be material weaknesses	Yes
Type of auditor's report issued on compliance for major programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR Section 516:	Yes

Name of Federal Program or Cluster	CFDA number
Student Financial Aid Cluster	84.268, 84.007, 84.038, 84.063, 93.342, & 93.364
Medical Assistance Program	93.778

Dollar threshold used to distinguish between Type A and Type B programs	$ 2,246,126
Auditee qualified as low-risk auditee	No

Section II – Financial Statement Findings

2018-A Classification of Net Position
Significant Deficiency in Internal Control over Financial Reporting

Criteria: A properly designed system of internal control over financial reporting includes the preparation of an entity's financial statements by internal personnel of the entity. Management is responsible for establishing and maintaining internal control over financial reporting and procedures related to the fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles (GAAP).

Condition: The Center's internal control system was not designed to accurately present the components of net position, specifically restricted, expendable and unrestricted, as required by GAAP. During fiscal year 2018, management identified that certain amounts previously reported as unrestricted expenditures should have been applied toward restricted resources, in accordance with the Center's accounting policy. The result was a restatement of the components of net position to reduce a restricted, expendable category and increase the unrestricted category.

Cause: The Center's internal control process, seemingly developed upon implementation of GASB Statement No. 34, to track and calculate net position did not account for certain employee benefit expenses that should have been applied to restricted resources. The fund the expenses were paid from was treated in whole as an unrestricted fund, when in reality a portion of it was restricted. In addition, certain internal activity between restricted, expendable and unrestricted was eliminated from the calculation, when in fact it should have been included for proper classification and reporting of net position.

Effect: The Center's historical financial statements were restated for a misstatement to the classification of net position balances. The restricted, expendable category of net position was decreased and the unrestricted category was increased.

Recommendation:
We recommend that management review the controls and processes in place to ensure the classification of net position is appropriately recorded and reported in accordance with GAAP.

Views of Responsible Officials:
Management acknowledges the finding and has developed an appropriate process and control to ensure that net position categories are reconciled and recorded and reported in accordance with GAAP.

Section III – Federal Award Findings and Questioned Costs

2018-001 **Direct Program from U.S. Department of Education**
Student Financial Aid Cluster (CFDA #'s 84.268, 84.063, 84.007, 84.038)
Special Tests: Enrollment Reporting
Material Weakness in Internal Control over Compliance

Criteria: A student's enrollment status determines eligibility for in-school status, deferment, and grace periods, as well as for the payment of interest subsidies to FFEL Program loan holders by the Department of Education (ED). Enrollment Reporting in a timely and accurate manner is critical for effective management of the programs. Enrollment information must be reported within 30 days whenever attendance changes for students, unless a roster will be submitted within 60 days.

When a recipient of Title IV grant or loan assistance withdraws from an institution during a payment period or period of enrollment in which the recipient began attendance, the institution must determine the amount of Title IV aid earned by the student as of the student's withdrawal date. If the total amount of Title IV assistance earned by the student is less than the amount that was disbursed to the student or on his/her behalf as of the date of the institution's determination that the student withdrew, the difference must be returned to the Title IV programs as outlined by the regulations. If the amount the student earned is greater than the amount disbursed, the difference between the amounts must be treated as a post-withdrawal disbursement (34 CFR section 668.22(a)(1) through (a)(5)).

Condition: In our student testing, there were students that had changes in enrollment status (i.e. withdrawal, graduation, reduction from full-time to part-time). We identified status changes that were not reported to the NSLDS within the 60-day time requirement and we noted instances where the status change date per the institution's records did not agree to the NSLDS records.

It should be noted that the cause of some of these instances were discovered at the start of the fiscal year and corrective actions were put in place by the Institution but not until after the 60-day time requirement had passed.

Cause: Internal controls do not appear to be in place to accurately identify and timely report the relevant dates for reporting to NSLDS.

Effect: Untimely reporting of student enrollment status does not allow the ED to properly track and monitor students, including initiation of the loan repayment process.

Question Costs: None reported

Context/Sampling:

Out of the 55 enrollment status changes in our sample, four of the status change dates did not agree with NSLDS and four status changes were not reported to NSLDS within the time required by the federal regulations. Non-statistical sampling was used.

Repeat Finding from Prior Year:

Yes, 2017-001

Recommendation:

We recommend that management update their control processes to ensure that accurate status date changes are being timely reported.

Views of Responsible Officials:

Management acknowledges the finding and is implementing internal processes to ensure timely and accurate reporting of enrollment status date changes to NSLDS.

2018-002 Direct Program from U.S. Department of Education
Student Financial Aid Cluster (CFDA #'s 84.268, 84.063, 84.007, 84.038)
Special Tests: Return of Funds
Significant Deficiency in Internal Control over Compliance

Criteria: When a recipient of Title IV grant or loan assistance withdraws from an institution during a payment period or period of enrollment in which the recipient began attendance, the institution must determine the amount of Title IV aid earned by the student as of the student's withdrawal date. If the total amount of Title IV assistance earned by the student is less than the amount that was disbursed to the student or on his/her behalf as of the date of the institution's determination that the student withdrew, the difference must be returned to the Title IV programs as outlined by the regulations. If the amount the student earned is greater than the amount disbursed, the difference between the amounts must be treated as a post-withdrawal disbursement (34 CFR section 668.22(a)(1) through (a)(5)).

Condition: We identified instances where the incorrect date was used to calculate the return of funds that resulted in an incorrect calculation of funds to be returned. This was due to the incorrect dates being used for Spring Break consideration in 2018.

Cause: Internal controls do not appear to be in place to accurately and timely identify the correct holiday dates for return of fund calculation purposes.

Effect: Use of improper dates in the return of funds calculation will likely result in incorrect calculations and inaccurate return of funds.

Question Costs: None reported.

Context/Sampling:

Two withdrawals in our sample of six withdrawals had an incorrect calculation of the return of funds due to an improper date being used for the calculation. Non-statistical sampling was used.

Repeat Finding from Prior Year:

No

Recommendation:

We recommend that management update their control processes to ensure that the proper status date changes with consideration of breaks are being used for return of funds calculations.

Views of Responsible Officials:

Management agrees with the finding and will implement corrective measures.

2018-003 Direct Program from U.S. Department of Education
Student Financial Aid Cluster (CFDA #'s 84.268, 84.063, 84.007, 84.038)
Cash Management
Significant Deficiency in Internal Control over Compliance

Criteria: An institution's funding request must not exceed the amount immediately needed to disburse funds to students or parents. A disbursement of funds occurs on the date an institution credits a student's account or pays a student or parent directly with either student financial aid funds or institutional funds. The institution must make the disbursements as soon as administratively feasible, but no later than 3 business days following the receipt of funds. Any amounts not disbursed by the end of the third business day are considered to be excess cash and generally are required to be promptly returned to the Department of Education (34 CFR section 668.166(a)(1)). Excess cash includes any funds received from ED that are deposited or transferred to the institution's Federal account as a result of an award adjustment, cancellation, or recovery. However, an excess cash balance tolerance is allowed if that balance (1) is less than one percent of its prior-year drawdowns; and (2) is eliminated within the next 7 calendar days (34 CFR sections 668.166(a) and (b)).

Condition: We identified an instance during the fiscal year where the cumulative draws exceeded the cumulative student disbursements. The matter was fully resolved 19 days after the drawdown.

Cause: A late scholarship resulting in a student being overawarded resulted in the need for a return to the Department of Education. Management was aware of the situation but did not return the funds to the Department of Education within the prescribed dates.

Effect: The Institution had excess cash balances due to excess drawdowns during the fiscal year.

Question Costs: None reported.

Context/Sampling:

Two disbursements in our sample of 25 drawdowns resulted in excess cash balances in May 2018. Overdrawn funds totaling $20,351 were identified by the Center on May 10, 2018. A wire transfer was initiated for $17,195 on May 22, 2018 to return the excess cash. The wire transfer was sent to the Department of Education on May 24, 2018 but was not reported as received by the Department of Education until May 29, 2018. Non-statistical sampling was used.

Repeat Finding from Prior Year:

No

Recommendation:

We recommend that management update their control processes to ensure that the proper cash management procedures are followed to comply with federal regulations.

Views of Responsible Officials:

Management agrees with the finding and will implement corrective measures.