OKLAHOMA STATE UNIVERSITY MEDICAL AUTHORITY

June 30, 2008

Audited Financial Statements

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Independent Auditors’ Report

Authority Members
Oklahoma State University Medical Authority
Tulsa, Oklahoma

We have audited the accompanying statements of financial position of the Oklahoma State University Medical Authority (the “Authority”), a component unit of the State of Oklahoma, as of June 30, 2008 and 2007, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Authority’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2008 and 2007, and its activities and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.
In accordance with Government Auditing Standards, we have also issued our report dated October 27, 2008, on our consideration of the Authority’s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audits.

The Medical Authority has not presented Management’s Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Oklahoma City, Oklahoma
October 27, 2008
Oklahoma State University Medical Authority

STATMENTS OF NET ASSETS

<table>
<thead>
<tr>
<th></th>
<th>June 30 2008</th>
<th>June 30 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current assets</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Noncurrent assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Receivables from state agencies</td>
<td>20,314,993</td>
<td>20,000,000</td>
</tr>
<tr>
<td><strong>TOTAL ASSETS</strong></td>
<td>20,314,993</td>
<td>20,000,000</td>
</tr>
</tbody>
</table>

| **LIABILITIES**     |              |              |
| Current liabilities | -            | -            |
| Noncurrent liabilities |           |              |
| Accounts payable for capital projects | - | 80,007      |
| **TOTAL LIABILITIES** | -         | 80,007      |

| **NET ASSETS**      |              |              |
| Restricted for Expendable Purposes: |           |              |
| Capital Projects    | 20,314,993   | 19,919,993   |
| **TOTAL NET ASSETS** | 20,314,993   | 19,919,993   |

| **TOTAL LIABILITIES & NET ASSETS** | $ 20,314,993 | $ 20,000,000 |

See notes to financial statements.
Oklahoma State University Medical Authority

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

<table>
<thead>
<tr>
<th></th>
<th>Years Ended June 30</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2008</td>
</tr>
<tr>
<td>Operating revenues</td>
<td>$</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>-</td>
</tr>
<tr>
<td>Operating income (loss)</td>
<td>-</td>
</tr>
<tr>
<td>Nonoperating revenues (expenses)</td>
<td>-</td>
</tr>
<tr>
<td>Income (loss) before other revenues, expenses, gains and losses</td>
<td>-</td>
</tr>
<tr>
<td>State appropriations restricted for capital purposes</td>
<td>400,000</td>
</tr>
<tr>
<td>Medical Center/Ardent support</td>
<td>(5,000)</td>
</tr>
<tr>
<td>Net increase (decrease) in net assets</td>
<td>395,000</td>
</tr>
<tr>
<td>Net assets - beginning of year</td>
<td>19,919,993</td>
</tr>
<tr>
<td>Net assets - end of year</td>
<td>$ 20,314,993</td>
</tr>
</tbody>
</table>

See notes to financial statements.
Oklahoma State University Medical Authority

STATEMENTS OF CASH FLOWS

<table>
<thead>
<tr>
<th>Years Ended June 30</th>
<th>2008</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash flows from operating activities</td>
<td>$</td>
<td>-</td>
</tr>
<tr>
<td>Cash flows from noncapital financing activities</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Cash flows from investing activities</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Cash flows from capital and related financing activities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash paid for Medical Center/Ardent support</td>
<td>(85,007)</td>
<td>-</td>
</tr>
<tr>
<td>Capital appropriations received</td>
<td>85,007</td>
<td>-</td>
</tr>
<tr>
<td>Net cash provided (used) by capital and related financing activities</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Net increase (decrease) in cash and cash equivalents</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Cash and cash equivalents, beginning of year</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Cash and cash equivalents, end of year</td>
<td>$</td>
<td>-</td>
</tr>
<tr>
<td>NONCASH CAPITAL AND RELATED FINANCING TRANSACTIONS</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Change in accounts payable for capital purposes</td>
<td>$</td>
<td>(80,007)</td>
</tr>
</tbody>
</table>

See notes to financial statements.
NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations: The Oklahoma State University Medical Authority ("Authority") is a state agency created by an act of the Oklahoma Legislature in May of 2006. The Authority is a state agency empowered to engage in activities to: 1) ensure a dependable source of funding for the graduate medical program associated with the Oklahoma State University Center for Health Sciences (the "Center"); 2) provide for stable teaching and training facilities for students enrolled at the Center; 3) upon a Declaration of Necessity serve as training and teaching facilities and to perform functions in response to the triggering events outlined in the Academic Affiliation Agreement between the Center and Ardent Health Services, the current owners of the teaching hospital; 4) serve as a site for conducting medical and biomedical research by faculty members of the Center; and 5) provide care for the patients of OSU physician trainers.

The Authority is governed by a seven member board consisting of the following members: 1) a member appointed by the Governor, with the advice and consent of the Senate; 2) a member appointed by the President Pro Tempore of the Senate; 3) a member appointed by the Speaker of the House of Representatives; 4) the Chief Executive Officer of the Oklahoma Health Care Authority, or his or her designee; 5) the President of the Center; 6) the Chief Executive Officer of the Oklahoma State University Medical Authority who shall be an ex officio, nonvoting member and 7) a member appointed by the President of Oklahoma State University (the "University"), who shall be the CEO of a facility with whom the University has an academic affiliation agreement. The Authority is subject to the Open Meeting and Open Records Act and Authority members are subject to Oklahoma Ethics Commission rules and regulations. The Authority is exempt from the rules of the Oklahoma Department of Central Services but is subject to the purchasing policies of the Center.

Reporting Entity: As an agency of the State of Oklahoma, the Authority presents its financial statements in accordance with requirements of Governmental Accounting Standards Board ("GASB") issued Statement No. 34, Basic Financial Statements and Management Discussion and Analysis for State and Local Governments. The financial statement presentation required by GASB No. 34 provides a comprehensive, entity-wide perspective of the Authority's assets, liabilities, net assets, revenues, expenses, changes in net assets and cash flows.

Basis of Accounting: For financial reporting purposes, the Authority is considered a special-purpose government entity engaged only in business-type activities. Accordingly, the Authority's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All significant intra-agency transactions have been eliminated. The Authority has the option to apply all Financial Accounting Standards Board ("FASB") pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The Authority has elected to not apply FASB pronouncements issued after the applicable date.

Cash Equivalents: The Authority considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.
NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Investments: The Authority accounts for its investments at fair value in accordance with GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the statements of revenues, expenses and changes in net assets.

Accounts Receivable: Accounts receivable consist of amounts due from the Federal government, state and local governments or private sources in connection with reimbursement of allowable expenditures made pursuant to the Authority’s statutory mission. Accounts receivable are recorded net of estimated uncollectible amounts.

Capital Assets: Capital assets held by the Authority are recorded at cost at the date of acquisition, or fair market value at the date of donation in the case of gifts. For equipment, the Authority’s capitalization policy includes all items with a unit cost of $5,000 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 40 years for buildings and five to seven years for equipment.

Costs incurred during construction of long-lived assets held by the Authority are recorded as construction in progress and are not depreciated until placed in service. The Authority capitalizes interest as a component of capital assets constructed for its own use. In 2008 and 2007, no interest was incurred or capitalized.

Reimbursement of Capital Expenses in Accordance with the Academic Affiliation Agreement: The Authority has been the recipient of funding for the improvement of facilities at OSU Medical Center (“Medical Center”) formerly known as the Tulsa Regional Medical Center, the major teaching hospital housing the graduate medical education programs of the OSU Center for Health Sciences. The hospital is privately owned by Ardent Health Services (“Ardent”). In May 2006, the OSU Center for Health Sciences and Ardent entered into an Academic Affiliation Agreement (“AAA”) which provided for University control of the graduate medical programs in exchange for certain state appropriations for the improvement of the hospital facilities. In fiscal years 2007 and 2008, the Legislature appropriated $20 million and $400,000, respectively, of an anticipated $40 million program between the Authority and Ardent subject to future state appropriations. The AAA was subsequently terminated by Ardent and a new AAA was executed in June 2008 covering a single and final year beginning July 1, 2008 and ending June 30, 2009.
NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Reimbursement of Capital Expenses in Accordance with the Academic Affiliation Agreement – Continued:

To date the capital improvements have been limited to the replacement of identification signs at the Medical Center. Given the termination of the agreement, no other capital improvements are planned at this time. Those funds were appropriated to the Oklahoma State Regents for Higher Education ("OSRHE") as a part of the higher education capital funding process. The Authority has designated the University to act as its fiscal agent, providing fiscal, purchasing and accounting services. As such, the University provides a draw down schedule to the OSRHE for those funds based upon the funding needs identified by the Authority and subsequently makes expenditures on behalf of the Authority. Utilization of those funds is more fully described in Note 5.

Deferred Revenues: Deferred revenues include amounts received for certain auxiliary and endowment activities prior to the end of the fiscal year but related to the subsequent accounting period. Deferred revenues also include amounts received from grant and contract sponsors that have not yet been earned.

Noncurrent Liabilities: Noncurrent liabilities include (1) principal amounts of notes payable with contractual maturities greater than one year; (2) estimated amounts for accrued compensated absences and other liabilities that will not be paid within the next fiscal year; and (3) other liabilities that, although payable within one year, are to be paid from funds that are classified as noncurrent assets.

Net Assets: The Authority’s net assets are classified as follows:

\[\text{Invested in capital assets, net of related debt}\]: This represents the Authority’s total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt. At June 30, 2008 and 2007, the Authority has no net assets invested in capital assets.

\[\text{Restricted net assets - expendable}\]: Restricted expendable net assets include resources in which the Authority’s legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

\[\text{Restricted net assets - nonexpendable}\]: Restricted nonexpendable net assets consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal. At June 30, 2008 and 2007, the Authority has no restricted, nonexpendable net assets.

\[\text{Unrestricted net assets}\]: Unrestricted net assets represent resources derived from the recovery of facilities and administrative costs and services of auxiliary operations. These resources are used for transactions relating to the educational and general operations of the Authority, and may be used at the discretion of the governing board to meet current expenses for any purpose. At June 30, 2008 and 2007, the Authority has no unrestricted net assets.
Oklahoma State University Medical Authority

NOTES TO FINANCIAL STATEMENTS—Continued

June 30, 2008 and 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Net Assets – Continued:

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

Income Taxes: The Authority, as a political subdivision of the State, is excluded from Federal income taxes under Section 115(a) of the Internal Revenue Code, as amended.

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

Operating revenues: Operating revenues include activities that have the characteristics of exchange transactions, such as sales and services of auxiliary enterprises and most Federal, state and local grants and contracts.

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

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

New Pronouncements: In 2006, GASB issued Statement No. 49, Accounting and Financial Reporting for Pollution Remediation Obligations. GASB No. 49 establishes standards for accounting and financial reporting for pollution remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. This statement does not apply to landfill closure and postclosure care obligations within the scope of GASB Statement No. 18, Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2007, with measurement of pollution remediation liabilities required at the beginning of that period so that beginning assets can be restated. Management has not yet determined the effect this Statement will have on the Authority's financial condition or results of operations.
Oklahoma State University Medical Authority

NOTES TO FINANCIAL STATEMENTS--Continued

June 30, 2008 and 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

New Pronouncements – Continued:

In 2007, GASB issued Statement No. 51, Accounting and Financial Reporting for Intangible Assets. GASB No. 51 establishes standards of accounting and financial reporting for intangible assets and requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. This Statement also establishes guidance specific to intangible assets related to amortization. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2009 and generally are required to be applied retroactively. Management has not yet determined the effect this Statement will have on the Authority’s financial condition or results of operations.

In 2007, GASB issued Statement No. 52, Land and Other Real Estate Held as Investments by Endowments. GASB No. 52 establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. It requires endowments to report their land and other real estate investments at fair value. Governments also are required to report the changes in fair value as investment income and to disclose the methods and significant assumptions employed to determine fair value, and other information that they currently present for other investments reported at fair value. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2008. Management has not yet determined the effect this Statement will have on the Authority’s financial condition or results of operations.

In 2008, GASB issued Statement No. 53, Accounting and Financial Reporting for Derivative Instruments. GASB No. 53 addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. A key provision in this Statement is that derivative instruments covered in its scope, with the exception of synthetic guaranteed investment contracts (SGICs) that are fully benefit-responsive, are reported at fair value. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2009. Earlier application is encouraged. Management has not yet determined the effect this Statement will have on the Authority’s financial condition or results of operations.
NOTE 2 – CASH AND CASH EQUIVALENTS AND INVESTMENTS

Cash and Cash Equivalents: At June 30, 2008 and 2007, the Authority had no cash or cash equivalents. The State Treasurer requires that all state funds are either insured by the Federal Deposit Insurance Corporation ("FDIC"), collateralized by securities held by the cognizant Federal Reserve Bank or invested in U.S. Government obligations. In the event of future cash deposits, the Authority’s deposits with the State Treasurer will be pooled with funds of other state agencies, and then in accordance with statutory limitations, placed in financial institutions or invested as the State Treasurer may determine, in the State’s name. The Authority requires that balances on deposit with financial institutions be insured by the FDIC or collateralized by securities held by the cognizant Federal Reserve Bank, in the Authority’s name.

Investments:
Credit Risk. 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. Additionally, it is the Authority’s policy to limit its investments in municipal and corporate bonds to the top two ratings issued by nationally recognized statistical rating organizations. As of June 30, 2008 and 2007, the Authority held no investments.

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2008 and 2007, consisted of $20,314,993 and $20,000,000, respectively, due from state agencies.

NOTE 4 – RISK MANAGEMENT

Oklahoma Statutes require participation of all state agencies in basic general liability, tort claim coverage, educator’s legal liability and property and casualty programs provided by the State of Oklahoma Department of Central Services Risk Management Division (the “SRMD”). The Authority and individual employees it may have in the future are provided sovereign immunity when performing official business within the scope of their employment under the Oklahoma Tort State Claims Act.

NOTE 5 – RELATED PARTY TRANSACTIONS

A summary of related party transactions during the year ended June 30, 2008 and 2007, including a description of the relationship and operations are as follows:

Oklahoma State University

Nature of Relationship - The Authority has designated the University as its fiscal agent and has authorized the University to make purchases on its behalf based upon prior approval of the Authority. Additionally, the Authority has entered into an administrative services agreement with the University to provide certain fiscal and legal support functions.
Oklahoma State University Medical Authority

NOTES TO FINANCIAL STATEMENTS--Continued

June 30, 2008 and 2007

NOTE 5 – RELATED PARTY TRANSACTIONS - CONTINUED

Description of Operations – The Authority receives certain appropriations from state entities and agencies for the support of graduate medical education primarily within the Medical Center. The Authority has engaged the Center to perform accounting functions including the receipt, deposit and recording of revenues and the payment and recording of expenses approved by the Authority. Additionally purchasing actions are also performed by the Center on behalf of the Authority. The Center also provides legal consultation as well as auditing services as a part of the administrative services agreement and has the right to receive payment for these services based upon the allocation of time spent by their employees for these functions.

NOTE 6 – SUBSEQUENT EVENT

The Center is entering into an AAA with Saint Francis Health System to transition the residency programs currently residing at the Medical Center to their system on July 1, 2009. With this transition and subject to the will of the Oklahoma legislature the Authority will continue with the mission of supporting the residency programs of the University. It is anticipated the focus will shift from supporting capital expenditures to direct support of the costs of employing and training residents.
Independent Auditors’ 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

Authority Members
Oklahoma State University Medical Authority
Tulsa, Oklahoma

We have audited the financial statements of the Oklahoma State University Medical Authority (the “Authority”), a component unit of the State of Oklahoma, as of and for the year ended June 30, 2008 and have issued our report thereon dated October 27, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority’s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority’s internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity’s ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity’s financial statements that is more than inconsequential will not be prevented or detected by the entity’s internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity’s internal control.

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

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

This report is intended solely for the information and use of the Authority Members of Oklahoma State University Medical Authority, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

Oklahoma City, Oklahoma
October 27, 2008