

# OKLAHOMA STATE UNIVERSITY MEDICAL AUTHORITY

June 30, 2011

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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, 2011 and 2010, 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2011 and 2010, 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 14, 2011, 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.

*Cole & Reed P.C.*

Oklahoma City, Oklahoma  
October 14, 2011

# Oklahoma State University Medical Authority

## STATEMENTS OF NET ASSETS

	June 30	
	<u>2011</u>	<u>2010</u>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 1,767,702	\$ 5,431,027
Noncurrent assets		
Receivables from state agencies	<u>394,000</u>	<u>394,000</u>
<b>TOTAL ASSETS</b>	<u>2,161,702</u>	<u>5,825,027</u>
<b>LIABILITIES</b>		
Current liabilities		
	<u>-</u>	<u>-</u>
Total current liabilities	-	-
Noncurrent liabilities		
Total noncurrent liabilities	<u>-</u>	<u>-</u>
<b>TOTAL LIABILITIES</b>	-	-
<b>NET ASSETS</b>		
Restricted for Expendable Purposes:		
Capital Projects	394,000	394,000
Unrestricted	<u>1,767,702</u>	<u>5,431,027</u>
<b>TOTAL NET ASSETS</b>	<u>\$ 2,161,702</u>	<u>\$ 5,825,027</u>

See notes to financial statements.

## Oklahoma State University Medical Authority

### STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

	Years Ended June 30,	
	2011	2010
Operating revenues:	\$ -	\$ -
Operating expenses	-	-
Operating income (loss)	-	-
Nonoperating revenues (expenses)		
State appropriations	5,000,000	5,000,000
Income before other revenues, expenses, gains and losses	5,000,000	5,000,000
Medical Center support	(8,663,325)	(9,739,400)
Net decrease in net assets	(3,663,325)	(4,739,400)
Net assets - beginning of year	5,825,027	10,564,427
Net assets - end of year	\$ 2,161,702	\$ 5,825,027

See notes to financial statements.

# Oklahoma State University Medical Authority

## STATEMENTS OF CASH FLOWS

	Years Ended June 30,	
	2011	2010
Cash flows from operating activities	\$ -	\$ -
Cash flows from noncapital financing activities		
State appropriations	5,000,000	5,000,000
Net cash provided by noncapital financing activities	5,000,000	5,000,000
Cash flows from investing activities	-	-
Cash flows from capital and related financing activities		
Cash paid for Medical Center support	(8,663,325)	(12,951,114)
Capital appropriations received	-	8,382,141
Net cash used in capital and related financing activities	(8,663,325)	(4,568,973)
Net increase (decrease) in cash and cash equivalents	(3,663,325)	431,027
Cash and cash equivalents, beginning of year	5,431,027	5,000,000
Cash and cash equivalents, end of year	\$ 1,767,702	\$ 5,431,027
<b>NONCASH CAPITAL AND RELATED FINANCIAL TRANSACTIONS</b>		
Change in accounts payable for capital purposes	\$ -	\$ (3,211,714)

See notes to financial statements.

# Oklahoma State University Medical Authority

## NOTES TO FINANCIAL STATEMENTS

June 30, 2011 and 2010

### 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 for students at the OSU Center for Health Sciences; 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.

In fiscal year 2009, the leadership of the executive and legislative branches of the State, Ardent Health Services, the University, Saint John Health System and members of the Tulsa philanthropic community undertook an effort to pass the ownership of the OSU Medical Center to a public entity. This effort culminated in the creation of a municipal public trust, the OSU Medical Center Trust, and the purchase of the teaching hospital by the trust from Ardent Health Services. Saint John entered into an agreement with the trust to manage the facility with Ardent Health Services providing some transition services over the proceeding twelve months.

The Authority entered into an inter-local agreement with the newly formed municipal trust to provide funding in accordance with the enabling legislation of the Authority. Pursuant to that agreement the Authority has paid for services provided by the trust during the fiscal years ending June 30, 2011 and 2010.

The Authority entered into two related interagency agreements with the Oklahoma Health Care Authority, the state Medicaid agency, and subsequently the OSU Medical Center Trust, to provide certain state matching funds allowing the OSU Medical Center to receive payments at the Upper Payment Limit as defined in the state Medicaid plan.

# Oklahoma State University Medical Authority

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2011 and 2010

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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") 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.

Accounts Receivable: Accounts receivable consists of amounts due from 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 considered fully collectible.

Reimbursement of Expenses in Accordance with the Inter-local Agreement: The OSU Medical Center was acquired by a newly created municipal trust on April 30, 2009. The nine member trust, named the Oklahoma State University Medical Center Trust ("Trust"), was created pursuant to Title 60 of the Oklahoma Statutes and purchased the medical center and its related assets from Ardent Health Services. The Trust entered into an inter-local agreement with the Authority to provide services for the care of patients of OSU physician trainers and to provide a site of practice for students, residents, and attending physicians. The Authority has made payments to the Trust in accordance with the inter-local agreement for the years ended June 30, 2011 and 2010. The Authority has also received state appropriations in the same fiscal years in the amount of \$5,000,000 for the support of the teaching mission at the OSU Medical Center.

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 Oklahoma State Regents for Higher Education 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.

# Oklahoma State University Medical Authority

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2011 and 2010

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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:

*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, 2011 and 2010, the Authority had no net assets invested in capital assets.

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

*Unrestricted net assets:* Unrestricted net assets represent resources derived from 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.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the Authority's policy is to use prudent decision processes to determine which resources will be applied based on availability of funding, donor intent, and returns available from idle funds.

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.

# Oklahoma State University Medical Authority

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2011 and 2010

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

New Pronouncements: In November 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. GASB No. 60 addresses issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. This Statement applies only to those arrangements in which specific criteria determining whether a transferor has control over the facility are met. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011.

In 2011, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus*. GASB No. 61 modifies certain requirements for inclusion of component units in the financial reporting entity. This Statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2012. Earlier application is encouraged.

In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. GASB No. 62 is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain FASB and AICPA pronouncements. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011. Earlier application is encouraged.

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB No. 63 provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011. Earlier application is encouraged.

Management has not yet determined the effect, if any, of adoption of these GASB statements for the financial statements.

### NOTE 2 - CASH AND CASH EQUIVALENTS AND INVESTMENTS

Cash and Cash Equivalents: At June 30, 2011 and 2010, the carrying amount of the Authority's cash and cash equivalents was \$1,767,702 and \$5,431,027, respectively. 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.

# Oklahoma State University Medical Authority

## NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2011 and 2010

### NOTE 3 - ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2011 and 2010 consisted of \$394,000 due from state agencies. This receivable represents one-time capital funds allocated to the Authority pursuant to House Bill 1105.

### NOTE 4 - RISK MANAGEMENT

Oklahoma Statutes require participation of all State agencies in basic tort, educator's legal liability, property and casualty programs, and fidelity bonding 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 Governmental Tort Claims Act.

### NOTE 5 - RELATED PARTY TRANSACTIONS

A summary of related party transactions during the year ended June 30, 2011 and 2010, 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.

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.

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, 2011 and have issued our report thereon dated October 14, 2011. Our report was modified to include an explanatory paragraph stating that the Authority has not presented Management's Discussion and Analysis. 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 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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and 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.

Cole & Reed P.C.

Oklahoma City, Oklahoma  
October 14, 2011