

Financial Statements and report of independent
certified public accountants

Oklahoma State University Medical Authority

June 30, 2012

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Report of Independent Certified Public Accountants

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Authority Members
Oklahoma State University Medical Authority

We have audited the accompanying statement of net assets of Oklahoma State University Medical Authority (the “Authority”) as of June 30, 2012, and the related statements of revenues, expenses and changes in net assets and cash flows for the year 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 audit. The financial statements of Oklahoma State University Medical Authority as of and for the year ended June 30, 2011 were audited by other auditors. These auditors expressed an unqualified opinion on those financial statements in their report dated October 14, 2011.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America established by the American Institute of Certified Public Accountants 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2012 financial statements referred to above present fairly, in all material respects, the financial position of Oklahoma State University Medical Authority, as of June 30, 2012, and the changes in financial position and cash flows, where applicable, thereof for the year 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 26, 2012 on our consideration of the Authority’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority’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* and should be considered in assessing the results of our audit.

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Grant Thornton LLP

Oklahoma City, Oklahoma
October 26, 2012

OKLAHOMA STATE UNIVERSITY MEDICAL AUTHORITY

STATEMENTS OF NET ASSETS

June 30,

	<u>2012</u>	<u>2011</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 3,487,388	\$ 1,767,702
Noncurrent assets		
Receivables from state agencies	<u>14,000</u>	<u>394,000</u>
TOTAL ASSETS	<u>3,501,388</u>	<u>2,161,702</u>
NET ASSETS		
Restricted for:		
Expendable		
Capital projects	14,000	394,000
Unrestricted	<u>3,487,388</u>	<u>1,767,702</u>
TOTAL NET ASSETS	<u>\$ 3,501,388</u>	<u>\$ 2,161,702</u>

The accompanying notes are an integral part of these statements.

OKLAHOMA STATE UNIVERSITY MEDICAL AUTHORITY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Years ended June 30,

	<u>2012</u>	<u>2011</u>
Operating revenues:		
	<u>\$ -</u>	<u>\$ -</u>
Total operating revenues	-	-
Operating expenses		
	-	-
Total operating expenses	-	-
Operating income (loss)	-	-
Nonoperating revenues (expenses)		
State appropriations	<u>5,000,000</u>	<u>5,000,000</u>
Income before other revenues, expenses, gains and losses	<u>5,000,000</u>	<u>5,000,000</u>
Medical Center support	<u>(3,660,314)</u>	<u>(8,663,325)</u>
Net increase (decrease) in net assets	<u>1,339,686</u>	<u>(3,663,325)</u>
Net assets - beginning of year	<u>2,161,702</u>	<u>5,825,027</u>
Net assets - end of year	<u>\$ 3,501,388</u>	<u>\$ 2,161,702</u>

The accompanying notes are an integral part of these statements.

OKLAHOMA STATE UNIVERSITY MEDICAL AUTHORITY

STATEMENTS OF CASH FLOWS

June 30,

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities	\$ -	\$ -
Cash flows from noncapital financing activities		
State appropriations	<u>5,000,000</u>	<u>5,000,000</u>
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	(3,660,314)	(8,663,325)
Capital appropriations received	<u>380,000</u>	<u>-</u>
Net cash used by capital and related financing activities	(3,280,314)	(8,663,325)
Net increase (decrease) in cash and cash equivalents	1,719,686	(3,663,325)
Cash and cash equivalents, beginning of year	<u>1,767,702</u>	<u>5,431,027</u>
Cash and cash equivalents, end of year	<u>\$ 3,487,388</u>	<u>\$ 1,767,702</u>

The accompanying notes are an integral part of these statements.

Oklahoma State University Medical Authority

NOTES TO FINANCIAL STATEMENTS

June 30, 2012 and 2011

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 preceding 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, 2012 and 2011.

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, 2012 and 2011

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, 2012 and 2011. 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, 2012 and 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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, 2012 and 2011, 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, 2012 and 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

New Pronouncements: 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 March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. GASB No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Earlier application is encouraged.

In March 2012, GASB issued Statement No. 66, *Technical Corrections-2012-an amendment of GASB Statements No. 10 and No. 62*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements. The provisions of the Statement are effective for financial statements for periods beginning after December 15, 2012. 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, 2012 and 2011, the carrying amount of the Authority's cash and cash equivalents was \$3,487,388 and \$1,767,702, 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.

NOTE 3 - ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2012 and 2011 consisted of \$14,000 and \$394,000, respectively, due from state agencies. This receivable represents one-time capital funds allocated to the University on behalf of the Authority pursuant to House Bill 1105. As the fiscal agent of the Authority, the University processes expenditures against these funds upon approval by the Authority.

Oklahoma State University Medical Authority

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2012 and 2011

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, 2012 and 2011, 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 OSU Medical Center. The Authority has engaged the Center, an agency of the University, to perform accounting functions including the receipt, deposit and recording of revenues and the payment and recording of expenses approved by the Authority. Expenses for the OSU Medical Center were \$3,660,314 and \$8,663,325 for the years ended June 30, 2012 and 2011, respectively, which provided funding for the Oklahoma Healthcare Authority graduate medical education program. 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 EVENTS

The Authority has evaluated events or transactions that occurred subsequent to June 30, 2012 through October 26, 2012, the date these financial statements were available to be issued, for potential recognition or disclosure in these financial statements.



Report of independent certified public accountants on internal control over financial reporting and on compliance and other matters

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Authority Members
Oklahoma State University Medical Authority

We have audited the financial statements of Oklahoma State University Medical Authority (the “Authority”) as of and for the year ended June 30, 2012, and have issued our report thereon dated October 26, 2012. Management has omitted management’s discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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 the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information. We conducted our audit in accordance with auditing standards generally accepted in the United States of America established by the American Institute of Certified Public Accountants 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 audit procedures for the purpose of expressing an 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 express no such opinion.

A deficiency in internal control over financial reporting 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 over financial reporting, 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.

Our consideration of internal control would not necessarily identify all deficiencies in internal control over financial reporting that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in the Authority’s internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that were not identified.

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 management, Authority Members, others within the Authority, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Grant Thornton LLP

Oklahoma City, Oklahoma
October 26, 2012