

Oklahoma State University Medical Authority

Independent Auditor's Reports and Financial Statements

June 30, 2015 and 2014



Oklahoma State University Medical Authority
June 30, 2015 and 2014

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Independent Auditor's Report

Board of Trustees
Oklahoma State University Medical Authority
Tulsa, Oklahoma

Report on the Financial Statements

We have audited the accompanying balance sheets of Oklahoma State University Medical Authority (the Authority) as of June 30, 2015 and 2014, 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 basic 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 misstatement.

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 Oklahoma State University Medical Authority as of June 30, 2015 and 2014, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis listed in the table of contents be presented to supplement the basic financial statements. Such information, although not 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2015, 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* in considering the Authority's internal control over financial reporting and compliance.

BKD, LLP

Tulsa, Oklahoma
November 19, 2015

Oklahoma State University Medical Authority

Management's Discussion and Analysis

Years Ended June 30, 2015 and 2014

Introduction

This management's discussion and analysis of the financial performance of Oklahoma State University Medical Authority (the Authority) provides an overview of the Authority's financial activities for the years ended June 30, 2015 and 2014. Due to a change in reporting entity, the financial information for the year ended June 30, 2013, is not comparable and, therefore, is not presented in this management's discussion and analysis. It should be read in conjunction with the accompanying financial statements of the Authority.

Financial Highlights

- Cash and cash equivalents increased in 2015 by \$5,055,967 or 31% compared to 2014.
- The Authority's net position increased in 2015 by \$7,205,556 or 21% compared to 2014.
- Net patient service revenue increased by \$18,069,441 or 15% in 2015 compared to 2014.
- The Authority reported operating income in 2015 of \$796,774. The operating income in 2015 improved by \$19,849,479 or 104% over the operating loss reported in 2014.

Using This Annual Report

The Authority's financial statements consist of three statements—a balance sheet; a statement of revenues, expenses and changes in net position; and a statement of cash flows. These statements provide information about the activities of the Authority, including resources held by the Authority but restricted for specific purposes by creditors, contributors, grantors or enabling legislation. The Authority is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

The Balance Sheet and Statement of Revenues, Expenses and Changes in Net Position

One of the most important questions asked about any authority's finances is, "Is the authority as a whole better or worse off as a result of the year's activities?" The balance sheet and the statement of revenues, expenses and changes in net position report information about the Authority's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. Using the accrual basis of accounting means that all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Authority's net position and changes in it. The Authority's total net position—the difference between assets and liabilities—is one measure of the Authority's financial health or financial position. Over time, increases or decreases in the Authority's net position are an indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the Authority's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients and local economic factors, should also be considered to assess the overall financial health of the Authority.

The Statement of Cash Flows

The statement of cash flows reports cash receipts, cash payments and net changes in cash and cash equivalents resulting from four defined types of activities. It provides answers to such questions as where did cash come from, what was cash used for and what was the change in cash and cash equivalents during the reporting period.

The Authority's Net Position

The Authority's net position is the difference between its assets and liabilities reported in the balance sheet. The Authority's net position increased by \$7,205,556 or 21% in 2015 over 2014 as shown in Table 1.

Table 1: Assets, Liabilities and Net Position

	<u>2015</u>	<u>2014</u>
Assets		
Cash and cash equivalents	\$ 21,439,470	\$ 16,383,503
Patient accounts receivable, net	15,914,572	14,168,245
Other receivables	1,115,613	869,007
Other current assets	6,835,174	6,814,052
Due from related party	-	114,600
Capital assets, net	34,376,156	39,483,292
Other noncurrent assets	<u>360,000</u>	<u>321,500</u>
Total assets	<u>\$ 80,040,985</u>	<u>\$ 78,154,199</u>
Liabilities		
Long-term debt (including current portion)	\$ 14,765,790	\$ 17,460,041
Other current and noncurrent liabilities	<u>23,226,144</u>	<u>25,850,663</u>
Total liabilities	<u>37,991,934</u>	<u>43,310,704</u>
Net Position		
Net investment in capital assets	19,610,366	22,023,251
Restricted	-	114,490
Unrestricted	<u>22,438,685</u>	<u>12,705,754</u>
Total net position	<u>42,049,051</u>	<u>34,843,495</u>
Total liabilities and net position	<u>\$ 80,040,985</u>	<u>\$ 78,154,199</u>

A significant change in the Authority's assets in 2015 is the increase in cash and cash equivalents. The number of days of cash on hand at June 30, 2015, was 56 days compared to just 42 days at June 30, 2014. This increase in cash and cash equivalents is largely attributable to the improved operating results in 2015. While patient accounts receivable increased by \$1,746,327 or 12% at June 30, 2015, compared to June 30, 2014, the days of net revenue in accounts receivable at June 30, 2015, was 41 days compared to 42 days at June 30, 2014.

Operating Results and Changes in the Authority's Net Position

In 2015, the Authority's net position increased by \$7,205,556 or 21% as shown in Table 2. This increase is made up of several different components and represents an improvement of 164% compared with the decrease in net position for 2014 of \$11,311,065.

Table 2: Operating Results and Changes in Net Position

	<u>2015</u>	<u>2014</u>
Operating Revenues		
Net patient service revenue	\$ 142,098,583	\$ 124,029,142
Other operating revenues	6,422,743	7,449,825
Total operating revenues	<u>148,521,326</u>	<u>131,478,967</u>
Operating Expenses		
Salaries, wages and employee benefits	74,578,484	71,609,597
Purchased services and professional fees	26,316,038	31,024,757
Supplies and other	38,181,575	40,036,167
Depreciation and amortization	8,648,455	7,861,151
Total operating expenses	<u>147,724,552</u>	<u>150,531,672</u>
Operating Income (Loss)	<u>796,774</u>	<u>(19,052,705)</u>
Nonoperating Revenues (Expenses)		
Noncapital grants and gifts	5,137,745	3,470,009
State appropriations	12,270,020	13,000,000
Contribution expense	(10,560,494)	(9,283,172)
Investment income	4,062	16,212
Interest expense	(654,341)	(866,020)
Total nonoperating revenues (expenses)	<u>6,196,992</u>	<u>6,337,029</u>
Excess (Deficiency) of Revenues over Expenses Before Capital Gifts and Grants	<u>6,993,766</u>	<u>(12,715,676)</u>
Gifts to Purchase Capital Assets and Other Capital Grants	<u>211,790</u>	<u>1,404,611</u>
Change in Net Position	<u>\$ 7,205,556</u>	<u>\$ (11,311,065)</u>

Operating Income (Loss)

The first component of the overall change in the Authority's net position is its operating income or loss—generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. In 2015, the Authority reported operating income as a result of cost cutting measures, higher patient volumes and better payer mix. The Authority reported a loss from operations in 2014.

The operating income for 2015 increased by \$19,849,479 or 104% as compared to the operating loss in 2014. The primary components of the change from operating loss to operating income are:

- An increase in net patient service revenue of \$18,069,441 or 15%

- An increase in salaries, wages and employee benefits for the Authority's employees of \$2,968,887 or 4%
- A decrease in purchased services and professional fees of \$4,708,719 or 15%

Net patient service revenue increased principally from an increase in transfers from rural health care facilities through the Rapid Access program, which was introduced in the fall of 2014. Patient days increased by 3,205 or 11% in 2015 compared to 2014 based on the additional discharges. With the addition of these patients, the Authority experienced a significant increase in inpatient surgical cases.

Salaries, wages and employee benefits increased in 2015 in connection with the increased patient volume and the Authority's retention and recruitment efforts.

Purchased services and professional fees decreased primarily due to a reduction in consulting fees associated with information technology changes completed in 2014, including implementation of the electronic health records system. Purchased services and professional fees also decreased due to the change in the fee structure of the current management agreement and related services.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of state appropriations received by the Authority, noncapital grants and gifts, contribution expense associated with the state appropriations and interest expense, all of which were relatively consistent in 2015 and 2014 except for contribution expense. In 2015, there was an increase in contribution expense of approximately \$1,277,000 primarily due to the funding of a new residency program in Lawton, Oklahoma.

The Authority's Cash Flows

Changes in the Authority's cash flows are consistent with changes in operating losses and nonoperating revenues and expenses for 2015 and 2014, discussed earlier.

Capital Asset and Debt Administration

Capital Assets

At the end of 2015 and 2014, the Authority had \$34,376,156 and \$39,483,292, respectively, invested in capital assets, net of accumulated depreciation, as detailed in *Note 5* to the financial statements. In 2015, the Authority purchased new capital assets costing approximately \$3,591,000. In 2014, the Authority purchased new capital assets costing approximately \$6,180,000, of which \$99,454 was financed through capital lease obligations.

Debt

At June 30, 2015 and 2014, the Authority had \$14,765,790 and \$17,460,041, respectively, in notes payable and capital lease obligations outstanding as detailed in *Note 6* to the financial statements. Except for capital leases of \$99,454 initiated in 2014, the Authority issued no new debt in 2014 or 2015.

Contacting the Authority's Financial Management

This financial report is designed to provide the Authority's patients, suppliers, taxpayers and creditors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Authority's Business Administration by telephoning 918.599.5100.

Oklahoma State University Medical Authority
Balance Sheets
June 30, 2015 and 2014

Assets

	2015	2014
Current Assets		
Cash and cash equivalents	\$ 21,439,470	\$ 16,383,503
Patient accounts receivable, net of allowance; 2015 – \$43,103,000, 2014 – \$35,521,000	15,914,572	14,168,245
Other receivables	1,115,613	869,007
Supplies	5,078,265	4,529,195
Prepaid expenses and other	1,756,909	2,284,857
Due from related party	-	114,600
Total current assets	45,304,829	38,349,407
Capital Assets, Net	34,376,156	39,483,292
Other Assets	360,000	321,500
Total assets	\$ 80,040,985	\$ 78,154,199

Liabilities and Net Position

Current Liabilities		
Current maturities of long-term debt	\$ 2,084,039	\$ 2,749,055
Accounts payable	8,974,762	10,240,517
Accrued payroll and expenses	5,450,847	6,214,920
Accrued interest payable	326,213	391,589
Estimated amounts due to third-party payers	2,312,608	1,200,000
Total current liabilities	19,148,469	20,796,081
Long-Term Debt	12,681,751	14,710,986
Other Long-Term Liabilities	6,161,714	7,803,637
Total liabilities	37,991,934	43,310,704
Net Position		
Net investment in capital assets	19,610,366	22,023,251
Restricted – expendable		
Specific operating activities	-	114,490
Unrestricted	22,438,685	12,705,754
Total net position	42,049,051	34,843,495
Total liabilities and net position	\$ 80,040,985	\$ 78,154,199

Oklahoma State University Medical Authority
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2015 and 2014

	2015	2014
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2015 – \$8,247,092, 2014 – \$26,911,940	\$ 142,098,583	\$ 124,029,142
Other	6,422,743	7,449,825
Total operating revenues	148,521,326	131,478,967
Operating Expenses		
Salaries and wages	60,459,393	57,775,336
Employee benefits	14,119,091	13,834,261
Purchased services and professional fees	26,316,038	31,024,757
Supplies and other expenses	38,181,575	40,036,167
Depreciation	8,648,455	7,861,151
Total operating expenses	147,724,552	150,531,672
Operating Income (Loss)	796,774	(19,052,705)
Nonoperating Revenues (Expenses)		
Noncapital grants and gifts	5,137,745	3,470,009
State appropriations	12,270,020	13,000,000
Contribution expense	(10,560,494)	(9,283,172)
Investment income	4,062	16,212
Interest expense	(654,341)	(866,020)
Total nonoperating revenues (expenses)	6,196,992	6,337,029
Excess (Deficiency) of Revenues over Expenses Before Capital Gifts and Grants	6,993,766	(12,715,676)
Gifts to Purchase Capital Assets and Other Capital Grants	211,790	1,404,611
Change in Net Position	7,205,556	(11,311,065)
Net Position, Beginning of Year	34,843,495	46,154,560
Net Position, End of Year	\$ 42,049,051	\$ 34,843,495

Oklahoma State University Medical Authority

Statements of Cash Flows

Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Operating Activities		
Receipts from and on behalf of patients	\$ 141,464,864	\$ 127,391,539
Payments to suppliers and contractors	(65,317,808)	(69,083,030)
Payments to employees	(76,984,480)	(71,236,446)
Other receipts and payments, net	<u>6,340,272</u>	<u>5,637,057</u>
Net cash provided by (used in) operating activities	<u>5,502,848</u>	<u>(7,290,880)</u>
Noncapital Financing Activities		
Noncapital grants and gifts	5,137,745	3,470,009
State appropriations	12,270,020	13,000,000
Contribution expense	<u>(10,560,494)</u>	<u>(9,283,172)</u>
Net cash provided by noncapital financing activities	<u>6,847,271</u>	<u>7,186,837</u>
Capital and Related Financing Activities		
Principal paid on long-term debt	(2,694,251)	(2,693,627)
Interest paid on long-term debt	(719,717)	(864,605)
Purchase of capital assets	(4,096,036)	(5,734,838)
Capital grants and gifts	<u>211,790</u>	<u>1,404,611</u>
Net cash used in capital and related financing activities	<u>(7,298,214)</u>	<u>(7,888,459)</u>
Investing Activities		
Investment income received	<u>4,062</u>	<u>16,212</u>
Net cash provided by investing activities	<u>4,062</u>	<u>16,212</u>
Increase (Decrease) in Cash and Cash Equivalents	5,055,967	(7,976,290)
Cash and Cash Equivalents, Beginning of Year	<u>16,383,503</u>	<u>24,359,793</u>
Cash and Cash Equivalents, End of Year	<u>\$ 21,439,470</u>	<u>\$ 16,383,503</u>

	<u>2015</u>	<u>2014</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities		
Operating income (loss)	\$ 796,774	\$ (19,052,705)
Loss on disposition of property and equipment	49,535	795,791
Depreciation	8,648,455	7,861,151
Amortization in other operating revenue	-	(307,105)
Provision for uncollectible accounts	8,247,092	26,911,940
Changes in operating assets and liabilities		
Patient accounts receivable	(9,993,419)	(26,741,727)
Other accounts receivable	(246,606)	200,307
Supplies and prepaid expenses	(407,220)	648,044
Due to/from related party	114,600	(2,501,761)
Estimated amounts due to/from third-party payers	1,112,608	3,000,000
Accounts payable and accrued expenses	<u>(2,818,971)</u>	<u>1,895,185</u>
Net cash provided by (used in) operating activities	<u>\$ 5,502,848</u>	<u>\$ (7,290,880)</u>
Supplemental Cash Flows Information		
Financed insurance premiums	\$ 849,553	\$ 1,197,151
Capital assets in accounts payable	\$ 181,201	\$ 686,383

Oklahoma State University Medical Authority

Notes to Financial Statements

June 30, 2015 and 2014

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and Reporting Entity

Oklahoma State University Medical Authority

The Oklahoma State University Medical Authority (the Authority) is a state agency created by an act of the Oklahoma Legislature in May 2006. The Authority is 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 OSU Center for Health Sciences); 2) provide for stable teaching and training facilities for students enrolled at the OSU Center for Health Sciences; 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 OSU Center for Health Sciences; and 5) provide care for the patients of OSU physician trainers.

Oklahoma State University Medical Center Trust

In fiscal year 2009, the leadership of the executive and legislative branches of the State of Oklahoma (the State), Ardent Medical Services, Inc., Oklahoma State University (the University), St. John Health System and members of the Tulsa philanthropic community undertook an effort to pass the ownership of the Oklahoma State University Medical Center (the Medical Center) to a public entity. This effort culminated in the creation of a municipal public trust, the Oklahoma State University Medical Center Trust (the Trust), and the purchase of the teaching hospital by the Trust from Ardent Medical Services, Inc. (see *Note 14*).

The Trust was formed in January 2009 to acquire, own and operate the Medical Center with the general purposes of promoting and supporting the teaching and training of physicians in Tulsa and the delivery of health care services to medically indigent persons.

OSUMC Professional Services LLC (OPS) employs physicians and other health care providers. The Trust is the sole corporate member of OPS, and OPS is included as a blended component unit of the Trust in the accompanying financial statements.

The Medical Center primarily earns revenues by providing inpatient, outpatient and emergency care services to patients in the Tulsa, Oklahoma, area.

The Authority entered into an interlocal agreement with the Trust to provide funding in accordance with the enabling legislation of the Authority. The Authority entered into two related interagency agreements with the Oklahoma Health Care Authority, the State's Medicaid agency, and subsequently the Trust to provide certain state matching funds allowing the Medical Center to receive payments at the Upper Payment Limit as defined in the State's Medicaid plan.

Oklahoma State University Medical Authority

Notes to Financial Statements

June 30, 2015 and 2014

Oklahoma State University Medical Trust

In October 2013, the Trust entered into a Tripartite Agreement and Plan of Merger (Merger Agreement) with the Authority and the Oklahoma State University Medical Trust (OSUMT). Under the terms of the Merger Agreement, effective December 6, 2013, the Trust agreed to the following:

- Transfer and convey substantially all assets and liabilities of the Trust to the Authority
- Amend the Trust's Declaration of Trust to designate the state of Oklahoma as its sole beneficiary and authorize the merger of the Trust with OSUMT
- Merge OSUMT into the Trust and designate OSUMT as the surviving entity
- Enter into a lease agreement for the Medical Center real property between the Authority and OSUMT
- Merge the operations of the Trust with OSUMT

Through December 6, 2013, the Medical Center was the primary operations of the Trust.

OSUMT is deemed to be a component unit of the Authority due to the common governance and the Authority's ability to impose its will on OSUMT. The Authority and OSUMT can be contacted by telephoning 918.599.5900.

Basis of Accounting and Presentation

The financial statements of the Authority have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally, federal and state grants) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated nonexchange transactions that are not program-specific, investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Authority first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Oklahoma State University Medical Authority

Notes to Financial Statements

June 30, 2015 and 2014

Cash Equivalents

The Authority considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2015 and 2014, cash equivalents consisted primarily of money market accounts.

Risk Management

The Authority is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage since the inception of the Authority.

Investment Income

Investment income consists of interest income.

Patient Accounts Receivable

The Authority reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The Authority provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions. As a service to the patient, the Authority bills third-party payers directly and bills the patient when the patient's liability is determined. Patient accounts receivable are due in full when billed. Accounts are considered delinquent and subsequently written off as bad debts based on individual credit evaluation and specific circumstances of the account.

Supplies

Supply inventories consist of medical supplies and pharmaceuticals and are stated at the lower of cost, determined using the first-in, first-out method, or market.

Capital Assets

When the Trust acquired the Medical Center on May 1, 2009, the land, building and equipment acquired were recorded at \$100 (see *Note 14*). Capital assets subsequently acquired are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives. The following estimated useful lives are being used by the Authority:

Buildings and leasehold improvements	5–40 years
Equipment	3–10 years

Oklahoma State University Medical Authority

Notes to Financial Statements

June 30, 2015 and 2014

Compensated Absences

Authority policies permit most employees to accumulate paid time off benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments, such as Social Security and Medicare taxes, computed using rates in effect at that date.

Net Position

Net position of the Authority is classified in three components. Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted expendable net position is made up of noncapital assets that must be used for a particular purpose, as specified by creditors, grantors or donors external to the Authority reduced by the outstanding balances of any related borrowings. Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted net position.

Net Patient Service Revenue

The Authority has agreements with third-party payers that provide for payments to the Authority at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

Charity Care

The Authority provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Authority does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue.

Oklahoma State University Medical Authority

Notes to Financial Statements

June 30, 2015 and 2014

State Appropriations and Matching Funds

As discussed in *Note 14*, in relation to the Medical Center being acquired by the Trust effective May 1, 2009, from Ardent Medical Services, Inc., the Trust (now OSUMT) entered into an interlocal agreement with the Authority. The Authority has made payments of approximately \$2,858,000 and \$6,450,000 to OSUMT in accordance with the interlocal agreement for the years ended June 30, 2015 and 2014, respectively. The Authority also received state appropriations for the years ended June 30, 2015 and 2014, of approximately \$12,270,000 and \$13,000,000, respectively, for the support of the teaching mission at the Medical Center and for the establishment of rural primary care residency programs throughout Oklahoma. In an effort to multiply the appropriated dollars, the Authority may send funds to the Oklahoma Health Care Authority to be matched with the majority of the funds then being paid to OSUMT and a portion paid to the Authority.

The Authority has designated the University to act as its fiscal agent for the purposes of 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.

OSUMT entered into a management agreement with Mercy Health Oklahoma Communities, Inc., on May 1, 2014, for the management of the Medical Center.

Income Taxes

As a state agency created by an act of the State of Oklahoma legislature, the Authority is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law.

Electronic Health Records Incentive Program

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals and physicians that demonstrate meaningful use of certified electronic health records (EHR) technology. Payments under the Medicare program are generally made for up to four years based on a statutory formula. Payments under the Medicaid program are generally made for three years based on a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services (CMS). Payments under both programs are contingent on the Authority continuing to meet escalating meaningful use criteria and any other specific requirements that are applicable for the reporting period. The final amount for any payment year is subject to audit by the fiscal intermediary. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

The Authority recognizes revenue ratably over the reporting period starting at the point when management is reasonably assured it will meet all of the meaningful use objectives and any other specific grant requirements applicable for the reporting period.

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The Authority recorded revenue of approximately \$2,054,000 and \$1,454,000 for 2015 and 2014, respectively, which is included in other revenue within operating revenues in the accompanying statements of revenues, expenses and changes in net position.

Supplemental Hospital Offset Payment Program

On January 17, 2012, CMS approved the State of Oklahoma’s Supplemental Hospital Offset Payment Program (SHOPP). The SHOPP is retroactive back to July 1, 2011, and is currently scheduled to sunset on December 31, 2017. The SHOPP is designed to assess Oklahoma hospitals a supplemental hospital offset fee which will be placed in pools after receiving federal matching funds. The total fees and matching funds will then be allocated to hospitals as directed by legislation.

The SHOPP revenue is recorded as part of net patient service revenue and the SHOPP assessment fees are recorded as part of other expenses on the accompanying statements of revenues, expenses and changes in net position and is summarized below for the years ended June 30:

	2015	2014
SHOPP funds recorded and received	\$ 11,254,000	\$ 10,330,000
SHOPP assessment fees recorded and paid	(3,710,000)	(3,447,000)
Net SHOPP benefit	\$ 7,544,000	\$ 6,883,000

The annual amounts to be received and paid by the Authority over the remaining term of the SHOPP are subject to several factors, including the Federal Medical Assistance Percentages (FMAP) and state funding. Based on information currently available, the annual net benefit received by the Authority under the SHOPP is not expected to be materially different than the amounts received in 2015.

Note 2: Net Patient Service Revenue

The Authority has agreements with third-party payers that provide for payments to the Authority at amounts different from its established rates. These payment arrangements include:

- **Medicare** – Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Defined medical education costs are paid based on a cost reimbursement methodology. The Authority is reimbursed for medical education, eligible Medicare bad debts and disproportionate share at tentative rates with final settlement determined after submission of annual cost reports by the Authority and audits thereof by the Medicare administrative contractor. The Authority’s cost reports for periods ending June 30, 2011, to present have not been final settled as of June 30, 2015.

Oklahoma State University Medical Authority

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- **Medicaid** – Inpatient services provided to the state’s Medicaid program beneficiaries are reimbursed on a prospective per discharge method with no retroactive adjustments. Outpatient services are reimbursed on a prospective fee schedule basis with no retroactive adjustments. These payment rates vary according to a patient classification system that is based on clinical, diagnostic and other factors.

Claims filed with both the Medicare and Medicaid programs are subject to audit.

Approximately 41% and 38% of gross patient service revenue is from participation in the Medicare program for the years ended June 30, 2015 and 2014, respectively. Approximately 23% and 25% of gross patient service revenue is from participation in the state-sponsored Medicaid program for the years ended June 30, 2015 and 2014, respectively.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The Authority has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Authority under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

The Authority received approximately \$9,000,000 in 2015 and 2014 from the State of Oklahoma Medicaid Upper Payment Limit (UPL) program. UPL programs are often an area considered for cost reductions by both federal and state legislators and there is no guarantee that UPL payments will continue at the same level in future years.

Note 3: Deposits and Investments

Deposits

Custodial credit risk is the risk that in the event of a bank failure an organization’s deposits may not be returned to it. 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.

At June 30, 2015 and 2014, none of the Authority’s bank balances of approximately \$25,884,000 and \$17,610,000, respectively, were exposed to custodial credit risk as uninsured and uncollateralized. These amounts include approximately \$6,596,000 and \$7,746,000 at June 30, 2015 and 2014, respectively, of funds that are pooled with funds of other state agencies.

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.

Oklahoma State University Medical Authority

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Investments

The Authority may legally invest in direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies and instrumentalities and in bank repurchase agreements. It may also invest, to a limited extent, in corporate bonds and equity securities. The Authority had no investments at June 30, 2015 and 2014.

Summary of Carrying Values

The carrying values of deposits as of June 30, 2015 and 2014, of \$20,963,107 and \$16,383,503, respectively, are included in the accompanying balance sheets as cash and cash equivalents.

Note 4: Patient Accounts Receivable

The Authority grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at June 30 consisted of:

	<u>2015</u>	<u>2014</u>
Medicare	\$ 5,164,987	\$ 5,828,625
Medicaid	2,834,810	1,564,271
Other third-party payers and patients	<u>51,017,775</u>	<u>42,296,349</u>
	59,017,572	49,689,245
Less allowance for uncollectible accounts	<u>43,103,000</u>	<u>35,521,000</u>
	<u>\$ 15,914,572</u>	<u>\$ 14,168,245</u>

Oklahoma State University Medical Authority
Notes to Financial Statements
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Note 5: Capital Assets

Capital assets activity for the years ended June 30 was:

	2015				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 100	\$ -	\$ -	\$ -	\$ 100
Land improvements	1,650	-	-	-	1,650
Buildings and leasehold improvements	14,936,937	118,673	-	109,248	15,164,858
Equipment	39,627,237	2,296,423	(53,578)	-	41,870,082
Construction in progress	3,442,595	1,175,758	(20,105)	(109,248)	4,489,000
	<u>58,008,519</u>	<u>3,590,854</u>	<u>(73,683)</u>	<u>-</u>	<u>61,525,690</u>
Less accumulated depreciation					
Land improvements	73	110	-	-	183
Buildings and leasehold improvements	2,041,445	906,486	-	-	2,947,931
Equipment	16,483,709	7,741,859	(24,148)	-	24,201,420
	<u>18,525,227</u>	<u>8,648,455</u>	<u>(24,148)</u>	<u>-</u>	<u>27,149,534</u>
Capital assets, net	<u>\$ 39,483,292</u>	<u>\$ (5,057,601)</u>	<u>\$ (49,535)</u>	<u>\$ -</u>	<u>\$ 34,376,156</u>
	2014				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 100	\$ -	\$ -	\$ -	\$ 100
Land improvements	-	-	-	1,650	1,650
Buildings and leasehold improvements	9,211,502	-	-	5,725,435	14,936,937
Equipment	35,227,682	4,399,555	-	-	39,627,237
Construction in progress	7,970,611	1,780,525	(581,456)	(5,727,085)	3,442,595
	<u>52,409,895</u>	<u>6,180,080</u>	<u>(581,456)</u>	<u>-</u>	<u>58,008,519</u>
Less accumulated depreciation					
Land improvements	-	73	-	-	73
Buildings and leasehold improvements	991,659	835,451	214,335	-	2,041,445
Equipment	9,458,082	7,025,627	-	-	16,483,709
	<u>10,449,741</u>	<u>7,861,151</u>	<u>214,335</u>	<u>-</u>	<u>18,525,227</u>
Capital assets, net	<u>\$ 41,960,154</u>	<u>\$ (1,681,071)</u>	<u>\$ (795,791)</u>	<u>\$ -</u>	<u>\$ 39,483,292</u>

Oklahoma State University Medical Authority

Notes to Financial Statements

June 30, 2015 and 2014

Note 6: Long-Term Obligations

The following is a summary of long-term obligation transactions for the Authority for the years ended June 30:

	2015				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Note payable, bank (A)	\$ 16,189,970	\$ -	\$ (1,734,996)	\$ 14,454,974	\$ 1,818,451
Notes payable, bank (B)	415,189	-	(415,189)	-	-
Capital lease obligations	854,882	-	(544,066)	310,816	265,588
Total long-term debt	17,460,041	-	(2,694,251)	14,765,790	2,084,039
Other long-term obligations	9,187,896	-	(1,728,962)	7,458,934	1,297,220
Total long-term obligations	\$ 26,647,937	\$ -	\$ (4,423,213)	\$ 22,224,724	\$ 3,381,259

	2014				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Note payable, bank (A)	\$ 17,855,511	\$ -	\$ (1,665,541)	\$ 16,189,970	\$ 1,745,177
Notes payable, bank (B)	827,378	-	(412,189)	415,189	415,189
Capital lease obligations	1,371,325	99,454	(615,897)	854,882	588,689
Total long-term debt	20,054,214	99,454	(2,693,627)	17,460,041	2,749,055
Other long-term obligations	8,621,368	1,907,237	(1,340,709)	9,187,896	1,384,259
Total long-term obligations	\$ 28,675,582	\$ 2,006,691	\$ (4,034,336)	\$ 26,647,937	\$ 4,133,314

Notes Payable

- (A) Due December 18, 2021, principal and interest at 4.12% payable annually, principal payments to be funded in accordance with provisions of a certain Academic Affiliation Agreement between the University and the Authority and are guaranteed by a certain lease agreement with the University (see Note 13).
- (B) There were two notes payable under a Master Financing Agreement. The notes payable were paid in full during the year ended June 30, 2015. Payments were due monthly, including interest of 4.40% to 4.78% and the notes were secured by certain property and equipment.

Oklahoma State University Medical Authority
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The debt service requirements as of June 30, 2015, are as follows:

Year Ending June 30,	Total to be Paid	Principal	Interest
2016	\$ 2,425,145	\$ 1,818,451	\$ 606,694
2017	2,425,144	1,894,802	530,342
2018	2,425,144	1,974,359	450,785
2019	2,425,145	2,057,257	367,888
2020	2,425,145	2,143,635	281,510
2021-2022	<u>4,855,696</u>	<u>4,566,470</u>	<u>289,226</u>
	<u>\$ 16,981,419</u>	<u>\$ 14,454,974</u>	<u>\$ 2,526,445</u>

Capital Lease Obligations

The Authority is obligated under leases for equipment that are accounted for as capital leases. Assets under capital leases at June 30, 2015 and 2014, totaled approximately \$2,564,000 and \$2,938,000, net of accumulated depreciation of approximately \$1,975,000 and \$1,881,000, respectively. The following is a schedule by year of future minimum lease payments under the capital leases, including interest at rates of 2.33% to 5.65% together with the present value of the future minimum lease payments as of June 30, 2015:

Year Ending June 30,	
2016	\$ 273,274
2017	46,554
Total minimum lease payments	<u>319,828</u>
Less amount representing interest	<u>9,012</u>
Present value of future minimum lease payments	<u>\$ 310,816</u>

Other Long-Term Liabilities

Other long-term liabilities represent the Trust's estimated liabilities related to litigation, including incurred but not reported claims, and an obligation determined based on future payments to be received under a state of Oklahoma reimbursement program. The liability associated with the obligation to make payments to a third party is discounted at the Trust's average borrowing rate of 4.25%.

Oklahoma State University Medical Authority
Notes to Financial Statements
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Note 7: Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses included in current liabilities at June 30 consisted of:

	2015	2014
Payable to suppliers and contractors	\$ 8,768,361	\$ 9,823,255
Payable to employees (including payroll taxes and benefits)	4,153,627	4,830,661
Payable to former owner	1,297,220	1,384,259
Payable to patients (including third party payers)	206,401	417,262
	\$ 14,425,609	\$ 16,455,437

Note 8: Medical Malpractice Claims

The Authority purchases medical malpractice insurance under a claims-made policy on a fixed premium basis. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. The Authority has accrued an estimated liability at June 30, 2015 and 2014, for incurred but not reported claims, which is included in other long-term liabilities in the accompanying balance sheets. It is reasonably possible that this estimate could change materially in the near term.

Note 9: Uncompensated Care

In support of its mission, the Authority voluntarily provides free care to patients who lack financial resources and are deemed to be medically indigent. Because the Authority does not pursue collection of amounts determined to qualify as charity care, they are not reported in net patient service revenue. In addition, the Authority provides services to other medically indigent patients under certain government-reimbursed public aid programs. Such programs pay providers amounts which are less than established charges for the services provided to the recipients and many times the payments are less than the cost of rendering the services provided.

The Authority's charity care policy includes a component related to presumptive charity care qualification based on various factors, including job status and resident status. The Authority has estimated the cost associated with uncompensated care to uninsured and charity care patients for the years ended June 30, 2015 and 2014, to be approximately \$8,121,000 and \$5,097,000, respectively.

Oklahoma State University Medical Authority

Notes to Financial Statements

June 30, 2015 and 2014

The cost of uncompensated care is estimated based on the overall cost to charge ratios from the most recently filed Medicare cost report. In addition to uncompensated charges, the Authority also commits significant time and resources to endeavors and critical services which meet otherwise unfilled community needs. Many of these activities are sponsored with the knowledge that they will not be self-supporting or financially viable. Such programs include health screenings and assessments, prenatal education and care, hospice programs, community educational services and various support groups.

Note 10: Pension Plan

The Authority contributes to a defined contribution pension plan covering substantially all employees. Pension expense is recorded for the amount of the Authority's required contributions, determined in accordance with the terms of the plan. The plan is administered by the Board of Trustees. The plan provides retirement and death benefits to plan members and their beneficiaries. Benefit provisions are contained in the plan document and were established and can be amended by action of the Authority's governing body. Contribution rates for plan members and the Authority expressed as a percentage of covered payroll were 5.8% and 2.8% for 2015 and 6.0% and 2.7% for 2014, respectively. Contributions actually made by plan members and the Authority aggregated approximately \$1,557,000 and \$677,000 during 2015 and approximately \$1,582,000 and \$685,000 during 2014, respectively.

Note 11: Restricted Net Position

At June 30, 2014, restricted expendable net position of \$114,490 was available for patient-related services. There was no restricted net position as of June 30, 2015.

Note 12: Contingencies

Litigation

In the normal course of business, the Authority is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by the Authority's commercial insurance; for example, allegations regarding employment practices or performance of contracts. The Authority evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management estimates the amount of ultimate expected loss, if any, for each matter and, if deemed appropriate, records the estimated liability. At June 30, 2015 and 2014, management determined no accrual for such matters was deemed necessary. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Oklahoma State University Medical Authority

Notes to Financial Statements

June 30, 2015 and 2014

Note 13: Community Support

In connection with the creation of the Trust, several entities made commitments to the Trust to assist in providing support and funds for the Trust to keep operating the Medical Center. These commitments ranged from direct financial support to indirect community support. Below is a recap of various community support received by the Trust in fiscal years 2015 and 2014:

State of Oklahoma

The State provided the Trust with approximately \$12,270,000 and \$13,000,000 in funds during the years ended June 30, 2015 and 2014, respectively, related to the UPL program. This state-operated program includes direct allocation of funds to the Authority in addition to statewide fund allocations.

The State also committed to financial support for the Trust as detailed in an Interlocal Agreement (the Agreement) between multiple entities, including the Trust and the Authority. Among the commitments made by the State in the Agreement were:

- Maintain funding levels for indirect medical education and graduate medical education for the Authority at the same levels the Medical Center received in 2009
- Provide the Trust up to \$25,000,000 in funding for capital needs during the first year of operations. The funding was provided by a commercial bank loan (see *Note 6*) secured by a lease agreement with the OSU Center for Health Sciences
- Provide funding for other health care-related activities and programs, such as federally qualified health centers, in the Tulsa area. This funding does not directly benefit the Trust and is not received directly by the Trust. However, the objective of this funding is to serve the uninsured and indigent patient population in the greater Tulsa area in the most effective manner

As of June 30, 2015 and 2014, the State has fulfilled its commitment for the current year, and no receivable has been recorded for future funding to the Authority as that funding is dependent on future actions, primarily state appropriations.

Oklahoma State University

The University has operational control over the OSU Center for Health Sciences in Tulsa. The OSU Center for Health Sciences provides interns and residents in the Tulsa area. The University has entered into a 10-year lease agreement effective May 2009 with the Authority that provides for annual funding to the Authority of \$2,500,000 if certain events occur.

Oklahoma State University Medical Authority

Notes to Financial Statements

June 30, 2015 and 2014

Local Foundation

As part of the commitments made to the Authority to support the operations of the Medical Center, a local foundation committed to provide the Authority with direct and indirect financial support not to exceed \$2,333,000 per year for five years ending June 30, 2014. The local foundation has provided support under this commitment by funding certain grants to the Foundation for the Oklahoma State University Medical Center (the Foundation) (see *Note 16*). Additionally, for the years ended June 30, 2015 and 2014, the local foundation provided grants to the Foundation of approximately \$861,000 and \$3,000,000, respectively, related to programs to support the Medical Center's provision of health care services and reimbursement for uncompensated care to qualified indigent patients of the Medical Center. These contributions are recorded as part of net patient service revenue when the Foundation reimburses the Medical Center for qualified patients.

In addition to these benefits, the local foundation assisted with raising funds from other local charitable organizations for the direct or indirect support of the Authority.

Revenue recognized by the Authority on the accompanying statement of revenues, expenses and changes in net position for the years ended June 30, 2015 and 2014, as noncapital grants and gifts were received from the following sources:

	<u>2015</u>	<u>2014</u>
Support from the University	\$ 2,500,000	\$ 2,500,000
Support from local foundation	137,000	684,000
Other	<u>2,500,000</u>	<u>286,000</u>
	<u>\$ 5,137,000</u>	<u>\$ 3,470,000</u>

Note 14: Acquisition of the Medical Center

On March 18, 2009, the Trust entered into a Purchase Agreement with Ardent Medical Services, Inc. (AMS) and related parties for the acquisition of the Medical Center. The acquisition was effective as of May 1, 2009.

The Trust recorded an unearned credit of approximately \$1,843,000 as part of this transaction, which represents the value of the assets received, net of liabilities assumed, in excess of the cash paid by the Authority. The unearned credit is being amortized over a five-year period with the amortization recorded in nonoperating revenues on the accompanying statements of revenues, expenses and changes in net position. At June 30, 2014, the unearned credit is fully amortized.

Oklahoma State University Medical Authority
Notes to Financial Statements
June 30, 2015 and 2014

Below is a recap of the purchase transaction with AMS:

Assets acquired	
Supplies inventory	\$ 4,002,000
Prepaid expenses	352,000
Capital assets (land and building)	100
Other	<u>71,000</u>
 Total assets acquired	 <u>4,425,100</u>
Liabilities assumed	
Accrued paid time off	1,263,000
Retirement plan payable	160,000
Indirect medical education obligation	<u>1,157,000</u>
 Total liabilities assumed	 <u>2,580,000</u>
 Assets, net of liabilities acquired	 1,845,100
 Cash paid by the Trust, net of cash received	 <u>2,000</u>
 Unearned credit	 <u><u>\$ 1,843,100</u></u>

Note 15: Contract Management Services

Effective May 1, 2014, the Trust is operated by Mercy Health Oklahoma Communities, Inc. (Mercy) under a management contract. The contract is for an initial term of one year unless terminated in accordance with the contract by either party with at least 30 days of notice prior to termination. Services provided by Mercy under the management contract include items such as management advisory services, revenue cycle management, purchasing-inventory management and administrative salary costs. In addition, Mercy provided information technology services to the Authority in connection with installation of an electronic health records system. Fees paid to Mercy for management services and information technology services were approximately \$1,704,000 and \$160,000 for the years ended June 30, 2015 and 2014, respectively. Effective May 1, 2015, the Trust renewed the management contract for another one-year term.

Note 16: Transactions with the Foundation for Oklahoma State University Medical Center

The Foundation is a nonprofit corporation whose mission and principal activities are to advance osteopathic medical education, research and patient care by financially supporting the operation and continued growth of the Medical Center. The Foundation was incorporated on September 30, 2011.

Oklahoma State University Medical Authority
Notes to Financial Statements
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During the years ended June 30, 2015 and 2014, the Foundation contributed approximately \$1,209,000 and \$4,560,000, respectively, to the Authority. The contributions are recorded on the accompanying statements of revenues, expenses and changes in net position as follows:

	2015	2014
Gifts to purchase capital assets and other capital grants	\$ 211,790	\$ 1,404,611
Noncapital grants and gifts	136,745	684,454
Net patient service revenue	860,272	2,471,449
	\$ 1,208,807	\$ 4,560,514

As discussed in *Note 13*, the Foundation also received contributions from a local foundation and other charitable organizations in support of the commitment under the agreement. At June 30, 2015 and 2014, the Foundation had net assets that were restricted for patient care or capital expenditures for the Authority of approximately \$825,000 and \$1,088,000, respectively.

Note 17: Transactions with OSU Center for Health Sciences

The Authority has engaged the OSU Center for Health Sciences, 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. Additionally, purchasing actions are also performed by the OSU Center for Health Sciences on behalf of the Authority. The OSU Center for Health Sciences also provides legal consultation 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. At June 30, 2015 and 2014, the Authority owed the OSU Center for Health Sciences approximately \$939,000 and \$2,691,000, respectively.

Oklahoma State University Medical Authority
Notes to Financial Statements
June 30, 2015 and 2014

Note 18: Combining Unit Information

The following tables include condensed combining balance sheets information for the Authority and its component unit, OSUMT, as of June 30, 2015 and 2014:

	June 30, 2015			Combined Balance
	Authority	OSUMT	Eliminations	
Assets				
Current Assets	\$ 6,596,391	\$ 38,708,438	\$ -	\$ 45,304,829
Capital Assets, Net	-	34,376,156	-	34,376,156
Other Assets	-	360,000	-	360,000
Total assets	<u>\$ 6,596,391</u>	<u>\$ 73,444,594</u>	<u>\$ -</u>	<u>\$ 80,040,985</u>
Liabilities and Net Position				
Current Liabilities	\$ -	\$ 19,148,469	\$ -	\$ 19,148,469
Long-Term Liabilities	-	18,843,465	-	18,843,465
Total liabilities	-	37,991,934	-	37,991,934
Net Position	<u>6,596,391</u>	<u>35,452,660</u>	<u>-</u>	<u>42,049,051</u>
Total liabilities and net position	<u>\$ 6,596,391</u>	<u>\$ 73,444,594</u>	<u>\$ -</u>	<u>\$ 80,040,985</u>

Oklahoma State University Medical Authority

Notes to Financial Statements

June 30, 2015 and 2014

	June 30, 2014			
	Authority	Trust	Eliminations	Combined Balance
Assets				
Current Assets	\$ 7,745,975	\$ 30,603,432	\$ -	\$ 38,349,407
Capital Assets, Net	-	39,483,292	-	39,483,292
Other Assets	-	321,500	-	321,500
	<u>\$ 7,745,975</u>	<u>\$ 70,408,224</u>	<u>\$ -</u>	<u>\$ 78,154,199</u>
Liabilities and Net Position				
Current Liabilities	\$ -	\$ 20,796,081	\$ -	\$ 20,796,081
Long-Term Liabilities	-	22,514,623	-	22,514,623
	<u>-</u>	<u>43,310,704</u>	<u>-</u>	<u>43,310,704</u>
Total liabilities	-	43,310,704	-	43,310,704
Net Position	7,745,975	27,097,520	-	34,843,495
	<u>7,745,975</u>	<u>27,097,520</u>	<u>-</u>	<u>34,843,495</u>
Total liabilities and net position	<u>\$ 7,745,975</u>	<u>\$ 70,408,224</u>	<u>\$ -</u>	<u>\$ 78,154,199</u>

Oklahoma State University Medical Authority
Notes to Financial Statements
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The following tables include condensed combining statements of revenues, expenses and changes in net position information for the Authority and its component unit for the years ended June 30, 2015 and 2014:

	Year Ended June 30, 2015			Combined Balance
	Authority	OSUMT	Eliminations	
Operating Revenues	\$ -	\$ 151,379,507	\$ (2,858,181)	\$ 148,521,326
Operating Expenses	<u>929</u>	<u>147,723,623</u>	<u>-</u>	<u>147,724,552</u>
Operating Income (Loss)	(929)	3,655,884	(2,858,181)	796,774
Nonoperating Revenues (Expenses)	<u>(1,148,655)</u>	<u>4,487,466</u>	<u>2,858,181</u>	<u>6,196,992</u>
Excess (Deficiency) of Revenues over Expenses Before Capital Gifts and Grants	(1,149,584)	8,143,350	-	6,993,766
Gifts to Purchase Capital Assets and Other Capital Grants	<u>-</u>	<u>211,790</u>	<u>-</u>	<u>211,790</u>
Change in Net Position	(1,149,584)	8,355,140	-	7,205,556
Net Position, Beginning of Year	<u>7,745,975</u>	<u>27,097,520</u>	<u>-</u>	<u>34,843,495</u>
Net Position, End of Year	<u>\$ 6,596,391</u>	<u>\$ 35,452,660</u>	<u>\$ -</u>	<u>\$ 42,049,051</u>

Oklahoma State University Medical Authority

Notes to Financial Statements

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	Year Ended June 30, 2014			Combined Balance
	Authority	Trust	Eliminations	
Operating Revenues	\$ -	\$ 137,928,967	\$ (6,450,000)	\$ 131,478,967
Operating Expenses	7,254	150,524,418	-	150,531,672
Operating Loss	(7,254)	(12,595,451)	(6,450,000)	(19,052,705)
Nonoperating Revenues (Expenses)	(233,172)	120,201	6,450,000	6,337,029
Deficiency of Revenues over Expenses Before Capital Gifts and Grants and Change in Net Position	(240,426)	(12,475,250)	-	(12,715,676)
Gifts to Purchase Capital Assets and Other Capital Grants	-	1,404,611	-	1,404,611
Change in Net Position	(240,426)	(11,070,639)	-	(11,311,065)
Net Position, Beginning of Year	7,986,401	38,168,159	-	46,154,560
Net Position, End of Year	\$ 7,745,975	\$ 27,097,520	\$ -	\$ 34,843,495

Oklahoma State University Medical Authority
Notes to Financial Statements
June 30, 2015 and 2014

The following tables include condensed combining statements of cash flows information for the Authority and its component unit for the years ended June 30, 2015 and 2014:

	Year Ended June 30, 2015			Combined Balance
	Authority	OSUMT	Eliminations	
Net Cash Provided by (Used in) Operating Activities	\$ (240,426)	\$ 5,743,274	\$ -	\$ 5,502,848
Net Cash Provided by Noncapital Financing Activities	-	6,847,271	-	6,847,271
Net Cash Used in Capital and Related Financing Activities	-	(7,298,214)	-	(7,298,214)
Net Cash Provided by Investing Activities	<u>-</u>	<u>4,062</u>	<u>-</u>	<u>4,062</u>
Change in Cash and Cash Equivalents	(240,426)	5,296,393	-	5,055,967
Cash and Cash Equivalents, Beginning of Year	<u>7,745,975</u>	<u>8,637,528</u>	<u>-</u>	<u>16,383,503</u>
Cash and Cash Equivalents, End of Year	<u>\$ 7,505,549</u>	<u>\$ 13,933,921</u>	<u>\$ -</u>	<u>\$ 21,439,470</u>

Oklahoma State University Medical Authority

Notes to Financial Statements

June 30, 2015 and 2014

	Year Ended June 30, 2014			Combined Balance
	Authority	Trust	Eliminations	
Net Cash Used in Operating Activities	\$ (240,426)	\$ (7,050,454)	\$ -	\$ (7,290,880)
Net Cash Provided by Noncapital Financing Activities	-	7,186,837	-	7,186,837
Net Cash Used in Capital and Related Financing Activities	-	(7,888,459)	-	(7,888,459)
Net Cash Provided by Investing Activities	<u>-</u>	<u>16,212</u>	<u>-</u>	<u>16,212</u>
Change in Cash and Cash Equivalents	(240,426)	(7,735,864)	-	(7,976,290)
Cash and Cash Equivalents, Beginning of Year	<u>7,986,401</u>	<u>16,373,392</u>	<u>-</u>	<u>24,359,793</u>
Cash and Cash Equivalents, End of Year	<u>\$ 7,745,975</u>	<u>\$ 8,637,528</u>	<u>\$ -</u>	<u>\$ 16,383,503</u>

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

Board of Trustees
Oklahoma State University Medical Authority
Tulsa, Oklahoma

We have audited, 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, the basic financial statements of Oklahoma State University Medical Authority (the Authority), which comprise the balance sheet as of June 30, 2015, 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 basic financial statements, and have issued our report thereon dated November 19, 2015.

Internal Control over Financial Reporting

Management of the Authority is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit, we considered the Authority's 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 Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses and, therefore, there can be no assurance that all material weaknesses have been identified. However, as discussed in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 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. 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 Authority's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2015-001 and 2015-002 to be material weaknesses.

Board of Trustees
Oklahoma State University Medical Authority

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*.

The Authority's Responses to the Findings

The Authority's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Authority's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

We also noted certain matters that we reported to the Authority's management in a separate letter dated November 19, 2015.

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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Tulsa, Oklahoma
November 19, 2015

Oklahoma State University Medical Authority
Schedule of Findings and Responses
Year Ended June 30, 2015

Reference Number	Finding
2015-001	<p>Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over financial reporting.</p> <p>Condition – Management’s procedures for properly accounting for accounts payable and related-party transactions did not produce materially accurate results.</p> <p>Context – Several material journal entries were required to correct misstatements in the June 30, 2015, financial statements.</p> <p>Effect – Potentially material misstatements in the financial statements could occur.</p> <p>Cause – Inaccurate entries to account for related-party transactions and procedures for recording accounts payable were inadequate to produce consistently accurate financial information.</p> <p>Recommendation – Management should evaluate the procedures in place related to recording transactions in the financial statements.</p> <p>Views of Responsible Officials and Planned Corrective Actions – Management concurs with the finding and recommendation. Management will evaluate the process of reviewing interim financial statements to identify unusual entries and transactions, including related-party transactions. Management will also take steps to review the process of recording accounts payable.</p>

Oklahoma State University Medical Authority
Schedule of Findings and Responses, continued
Year Ended June 30, 2015

Reference Number	Finding
2015-002	<p>Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control in the cash disbursements and financial reporting transactions cycles.</p> <p>Condition – The review process for accounts payable and items received but not invoiced accruals were not sufficient to identify several errors in the accounting for these items during the year.</p> <p>Context – The standard monthly reconciliation process in place for accounts payable did not identify accruals for items received but not invoiced that were no longer required.</p> <p>Effect – Potentially material misstatements in the financial statements or material misappropriation of assets due to error or fraud could occur and not be prevented or detected and corrected in a timely manner.</p> <p>Cause – Review and monitoring procedures in the internal control over cash disbursements and the related accruals were not adequate to properly state month-end balances in accounts payable.</p> <p>Recommendation – Management should revise the monthly reconciliation process for accounts payable and related accruals to evaluate the amount and aging of items received but not invoiced accrual balances.</p> <p>Views of Responsible Officials and Planned Corrective Actions – Management concurs with the finding and recommendation. Management will take steps to ensure the review process for accounts payable includes additional analysis of the items received but not invoiced accrual amount.</p>