

# **Oklahoma State University Medical Authority**

Independent Auditor's Reports and Financial Statements

June 30, 2016 and 2015





**Oklahoma State University Medical Authority**  
**June 30, 2016 and 2015**

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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, 2016 and 2015, 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, 2016 and 2015, 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.

### ***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 October 28, 2016, 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  
October 28, 2016

# **Oklahoma State University Medical Authority**

## **Management's Discussion and Analysis**

### **Years Ended June 30, 2016 and 2015**

#### ***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, 2016 and 2015. This management's discussion and analysis should be read in conjunction with the accompanying financial statements of the Authority.

#### ***Financial Highlights***

- Cash and cash equivalents increased by \$216,892 or 1% in 2016 and by \$5,055,967 or 31% in 2015.
- The Authority's net position increased by \$6,413,818 or 15% in 2016 and by \$7,205,556 or 21% in 2015.
- Net patient service revenue decreased by \$4,814,728 or 3% in 2016 and increased by \$20,569,441 or 17% in 2015.
- The Authority reported an operating loss in 2016 of \$1,263,277 and operating income of \$3,296,774 in 2015.

#### ***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 \$6,413,818 or 15% in 2016 over 2015 and by \$7,205,556 or 21% in 2015 over 2014 as shown in Table 1.

**Table 1: Assets, Liabilities and Net Position**

	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>Assets</b>			
Cash and cash equivalents	\$ 21,656,362	\$ 21,439,470	\$ 16,383,503
Patient accounts receivable, net	14,619,663	15,914,572	14,168,245
Other receivables	2,989,126	1,115,613	869,007
Other current assets	7,673,174	6,835,174	6,814,052
Due from related party	229,502	-	114,600
Capital assets, net	35,474,611	34,376,156	39,483,292
Other assets	360,000	360,000	321,500
Total assets	<u>\$ 83,002,438</u>	<u>\$ 80,040,985</u>	<u>\$ 78,154,199</u>
<b>Liabilities</b>			
Long-term debt (including current portion)	\$ 13,660,155	\$ 14,765,790	\$ 17,460,041
Other current and noncurrent liabilities	<u>20,879,414</u>	<u>23,226,144</u>	<u>25,850,663</u>
Total liabilities	<u>34,539,569</u>	<u>37,991,934</u>	<u>43,310,704</u>
<b>Net Position</b>			
Net investment in capital assets	20,846,180	19,429,165	22,023,251
Restricted	-	-	114,490
Unrestricted	<u>27,616,689</u>	<u>22,619,886</u>	<u>12,705,754</u>
Total net position	<u>48,462,869</u>	<u>42,049,051</u>	<u>34,843,495</u>
Total liabilities and net position	<u>\$ 83,002,438</u>	<u>\$ 80,040,985</u>	<u>\$ 78,154,199</u>

A significant change in the Authority's assets in 2016 is the increase in other receivables. This increase is primarily due to a receivable related to state appropriations funding. Patient accounts receivable decreased by \$1,294,909 or 8% at June 30, 2016, compared to June 30, 2015, and days of net revenue in accounts receivable at June 30, 2016, was 39 days compared to 41 days at June 30, 2015.

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 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 2016, the Authority's net position increased by \$6,413,818 or 15% as shown in Table 2. This increase is made up of several different components and represents a decline of 11% compared with the increase in net position for 2015 of \$7,205,556.

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**

	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>Operating Revenues</b>			
Net patient service revenue	\$ 139,783,855	\$ 144,598,583	\$ 124,029,142
Other operating revenues	<u>4,074,796</u>	<u>6,422,743</u>	<u>7,449,825</u>
Total operating revenues	<u>143,858,651</u>	<u>151,021,326</u>	<u>131,478,967</u>
<b>Operating Expenses</b>			
Salaries, wages and employee benefits	74,954,210	74,578,484	71,609,597
Purchased services and professional fees	26,663,172	26,316,038	31,024,757
Supplies and other	35,571,177	38,181,575	40,036,167
Depreciation	<u>7,933,369</u>	<u>8,648,455</u>	<u>7,861,151</u>
Total operating expenses	<u>145,121,928</u>	<u>147,724,552</u>	<u>150,531,672</u>
<b>Operating Income (Loss)</b>	<u>(1,263,277)</u>	<u>3,296,774</u>	<u>(19,052,705)</u>
<b>Nonoperating Revenues (Expenses)</b>			
Noncapital grants and gifts	2,751,417	2,637,745	3,470,009
State contract and grant revenue	16,764,524	12,270,020	13,000,000
Contribution expense	(11,963,214)	(10,560,494)	(9,283,172)
Investment income	28,692	4,062	16,212
Interest expense	<u>(622,073)</u>	<u>(654,341)</u>	<u>(866,020)</u>
Total nonoperating revenues (expenses)	<u>6,959,346</u>	<u>3,696,992</u>	<u>6,337,029</u>
<b>Excess (Deficiency) of Revenues over Expenses Before Capital Gifts and Grants</b>	5,696,069	6,993,766	(12,715,676)
<b>Gifts to Purchase Capital Assets and Other Capital Grants</b>	<u>717,749</u>	<u>211,790</u>	<u>1,404,611</u>
<b>Change in Net Position</b>	<u>\$ 6,413,818</u>	<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 2016, the Authority reported an operating loss as a result of a decrease in patient volumes. 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 loss for 2016 changed by \$4,560,051 or 138% as compared to the operating income in 2015. The primary components of the change from operating income to operating loss are:

- A decrease in net patient service revenue of \$4,814,728 or 3%
- A decrease in supplies and other expenses of \$2,610,398 or 7%

Net patient service revenue decreased principally from a decrease in patient volumes. Patient days decreased by 385 or 1% in 2016 compared to 2015 based on total patient days.

Supplies and other expenses decreased in 2016 due to the Authority's efforts to reduce costs across all departments.

The operating income for 2015 changed by \$22,349,479 or 117% as compared to the operating loss in 2015. The primary components of the change from operating loss to operating income are:

- An increase in net patient service revenue of \$20,569,441 or 17%
- 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 contract and grant revenue received by the Authority, noncapital grants and gifts, contribution expense associated with the state contract and grant revenue and interest expense, all of which were relatively consistent in 2016 and 2015 except for state contract and grant revenue for 2016 and contribution expense for 2016 and 2015. In 2016, there was an increase in contract and grant revenue of approximately \$4,495,000 primarily due to receiving additional funds from the state for indirect and graduate medical education. The increases in 2016 and 2015 in contribution expense of approximately \$1,403,000 and \$1,277,000, respectively, are primarily due to the funding of a new residency program in Norman, Oklahoma, in 2016 and in Lawton, Oklahoma, in 2015.

### ***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 2016 and 2015, discussed earlier.

### ***Capital Assets and Debt Administration***

#### **Capital Assets**

At the end of 2016 and 2015, the Authority had \$35,474,611 and \$34,376,156, respectively, invested in capital assets, net of accumulated depreciation, as detailed in *Note 5* to the financial statements. In 2016, the Authority purchased new capital assets costing approximately \$9,275,000, of which \$1,163,073 was financed through capital lease obligations. In 2015, the Authority purchased new capital assets costing approximately \$3,591,000.

#### **Debt**

At June 30, 2016 and 2015, the Authority had \$13,660,155 and \$14,765,790, respectively, in notes payable and capital lease obligations outstanding as detailed in *Note 6* to the financial statements. The Authority entered capital leases of \$1,163,073 in 2016. The Authority issued no other debt in 2016 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 918.599.5900.

**Oklahoma State University Medical Authority**  
**Balance Sheets**  
**June 30, 2016 and 2015**

**Assets**

	<b>2016</b>	<b>2015</b>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 21,656,362	\$ 21,439,470
Patient accounts receivable, net of allowance; 2016 – \$48,691,000, 2015 – \$43,103,000	14,619,663	15,914,572
Other receivables	2,989,126	1,115,613
Supplies	4,761,469	5,078,265
Prepaid expenses and other	2,911,705	1,756,909
Due from related party	229,502	-
	47,167,827	45,304,829
<b>Capital Assets, Net</b>	35,474,611	34,376,156
<b>Other Assets</b>	360,000	360,000
Total assets	\$ 83,002,438	\$ 80,040,985

**Liabilities and Net Position**

<b>Current Liabilities</b>		
Current maturities of long-term debt	\$ 2,147,534	\$ 2,084,039
Accounts payable	8,944,662	8,974,762
Accrued payroll and expenses	5,142,307	5,450,847
Accrued interest payable	300,172	326,213
Estimated amounts due to third-party payers	1,500,000	2,312,608
	18,034,675	19,148,469
<b>Long-Term Debt</b>	11,512,621	12,681,751
<b>Other Long-Term Liabilities</b>	4,992,273	6,161,714
Total liabilities	34,539,569	37,991,934
<b>Net Position</b>		
Net investment in capital assets	20,846,180	19,429,165
Unrestricted	27,616,689	22,619,886
	48,462,869	42,049,051
Total liabilities and net position	\$ 83,002,438	\$ 80,040,985

**Oklahoma State University Medical Authority**  
**Statements of Revenues, Expenses and Changes in Net Position**  
**Years Ended June 30, 2016 and 2015**

	<b>2016</b>	<b>2015</b>
<b>Operating Revenues</b>		
Net patient service revenue, net of provision for uncollectible accounts; 2016 – \$7,109,199, 2015 – \$8,247,092	\$ 139,783,855	\$ 144,598,583
Other	4,074,796	6,422,743
Total operating revenues	143,858,651	151,021,326
<b>Operating Expenses</b>		
Salaries and wages	60,778,382	60,459,393
Employee benefits	14,175,828	14,119,091
Purchased services and professional fees	26,663,172	26,316,038
Supplies and other expenses	35,571,177	38,181,575
Depreciation	7,933,369	8,648,455
Total operating expenses	145,121,928	147,724,552
<b>Operating Income (Loss)</b>	<b>(1,263,277)</b>	<b>3,296,774</b>
<b>Nonoperating Revenues (Expenses)</b>		
Noncapital grants and gifts	2,751,417	2,637,745
State contract and grant revenue	16,764,524	12,270,020
Contribution expense	(11,963,214)	(10,560,494)
Investment income	28,692	4,062
Interest expense	(622,073)	(654,341)
Total nonoperating revenues (expenses)	6,959,346	3,696,992
<b>Excess of Revenues over Expenses Before Capital Gifts and Grants</b>	5,696,069	6,993,766
<b>Gifts to Purchase Capital Assets and Other Capital Grants</b>	717,749	211,790
<b>Change in Net Position</b>	6,413,818	7,205,556
<b>Net Position, Beginning of Year</b>	42,049,051	34,843,495
<b>Net Position, End of Year</b>	\$ 48,462,869	\$ 42,049,051

**Oklahoma State University Medical Authority**  
**Statements of Cash Flows**  
**Years Ended June 30, 2016 and 2015**

	<b>2016</b>	<b>2015</b>
<b>Operating Activities</b>		
Receipts from and on behalf of patients	\$ 140,266,156	\$ 143,964,864
Payments to suppliers and contractors	(63,889,524)	(65,317,808)
Payments to employees	(76,432,191)	(76,984,480)
Other receipts and payments, net	4,064,075	6,340,272
Net cash provided by operating activities	4,008,516	8,002,848
<b>Noncapital Financing Activities</b>		
Noncapital grants and gifts	2,751,417	2,637,745
State contract and grant revenue	14,299,238	12,270,020
Contribution expense	(11,963,214)	(10,560,494)
Net cash provided by noncapital financing activities	5,087,441	4,347,271
<b>Capital and Related Financing Activities</b>		
Principal paid on long-term debt	(2,268,708)	(2,694,251)
Interest paid on long-term debt	(648,114)	(719,717)
Purchase of capital assets	(7,325,116)	(4,096,036)
Proceeds from sale of equipment	616,432	-
Capital grants and gifts	717,749	211,790
Net cash used in capital and related financing activities	(8,907,757)	(7,298,214)
<b>Investing Activities</b>		
Investment income received	28,692	4,062
Net cash provided by investing activities	28,692	4,062
<b>Increase in Cash and Cash Equivalents</b>	216,892	5,055,967
<b>Cash and Cash Equivalents, Beginning of Year</b>	21,439,470	16,383,503
<b>Cash and Cash Equivalents, End of Year</b>	\$ 21,656,362	\$ 21,439,470

	<u>2016</u>	<u>2015</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities</b>		
Operating income (loss)	\$ (1,263,277)	\$ 3,296,774
Loss on disposition of property and equipment	(372,992)	49,535
Depreciation	7,933,369	8,648,455
Provision for uncollectible accounts	7,109,199	8,247,092
Changes in operating assets and liabilities		
Patient accounts receivable	(5,814,290)	(9,993,419)
Other accounts receivable	376,487	(246,606)
Supplies and prepaid expenses	(954,975)	(407,220)
Due to/from related party	(14,216)	114,600
Estimated amounts due to/from third-party payers	(812,608)	1,112,608
Accounts payable and accrued expenses	<u>(2,178,181)</u>	<u>(2,818,971)</u>
Net cash provided by operating activities	<u>\$ 4,008,516</u>	<u>\$ 8,002,848</u>
<b>Supplemental Cash Flows Information</b>		
Financed insurance premiums	\$ 732,578	\$ 849,553
Capital assets in accounts payable	\$ 968,276	\$ 181,201
Capital lease obligations incurred for capital assets	\$ 1,163,073	\$ -

**Oklahoma State University Medical Authority**  
**Notes to Financial Statements**  
**June 30, 2016 and 2015**

**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.

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, 2016 and 2015**

#### **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, 2016 and 2015**

***Cash Equivalents***

The Authority considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2016 and 2015, 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. 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, 2016 and 2015

### ***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, 2016 and 2015

#### ***State Contract and Grant Revenue 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 appropriated approximately \$5,958,000 and \$2,858,000 to OSUMT in accordance with the interlocal agreement for the years ended June 30, 2016 and 2015, respectively. The Authority also received state contract revenue for the years ended June 30, 2016 and 2015, of approximately \$16,203,000 and \$12,270,000, 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 contract dollars, the Authority may send funds to the Oklahoma Health Care Authority or University Hospitals 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.

#### ***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.

The Authority attested to meeting the third-year meaningful use requirements for both Medicare and Medicaid during 2016.

**Oklahoma State University Medical Authority**  
**Notes to Financial Statements**  
**June 30, 2016 and 2015**

The Authority recorded revenue of approximately \$950,000 and \$2,054,000 for 2016 and 2015, 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, 2020. 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.

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:

	<b>2016</b>	<b>2015</b>
SHOPP funds recorded and received	\$ 11,173,000	\$ 11,254,000
SHOPP assessment fees recorded and paid	(3,342,000)	(3,710,000)
Net SHOPP benefit	\$ 7,831,000	\$ 7,544,000

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 2016.

***Reclassifications***

Certain reclassifications have been made to the 2015 financial statements to conform to the 2016 financial statement presentation. The reclassifications had no effect on the change in financial position.

# Oklahoma State University Medical Authority

## Notes to Financial Statements

### June 30, 2016 and 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, 2014, to present have not been final settled as of June 30, 2016.
- **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 42% and 41% of gross patient service revenue is from participation in the Medicare program for the years ended June 30, 2016 and 2015, respectively. Approximately 21% and 23% of gross patient service revenue is from participation in the state-sponsored Medicaid program for the years ended June 30, 2016 and 2015, 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's 2016 net patient service revenue increased approximately \$2,200,000 due to removal of previously estimated amounts that are no longer necessary as a result of administrative contractor audits or final settlements.

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 2016 and 2015 from the State's 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.

**Oklahoma State University Medical Authority**  
**Notes to Financial Statements**  
**June 30, 2016 and 2015**

**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, 2016 and 2015, none of the Authority's bank balances of approximately \$20,392,000 and \$25,884,000, respectively, were exposed to custodial credit risk as uninsured and uncollateralized. These amounts include approximately \$6,232,000 and \$6,596,000 at June 30, 2016 and 2015, 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.

***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, 2016 and 2015.

***Summary of Carrying Values***

The carrying values of deposits as of June 30, 2016 and 2015, of \$21,656,362 and \$21,439,470, 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:

	<b>2016</b>	<b>2015</b>
Medicare	\$ 4,910,981	\$ 5,164,987
Medicaid	2,273,494	2,834,810
Other third-party payers and patients	56,126,188	51,017,775
	63,310,663	59,017,572
Less allowance for uncollectible accounts	48,691,000	43,103,000
	\$ 14,619,663	\$ 15,914,572

**Oklahoma State University Medical Authority**  
**Notes to Financial Statements**  
**June 30, 2016 and 2015**

**Note 5: Capital Assets**

Capital assets activity for the years ended June 30 was:

	<b>2016</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Transfers</b>	<b>Ending Balance</b>
Land	\$ 100	\$ -	\$ -	\$ -	\$ 100
Land improvements	1,650	-	-	2,791,287	2,792,937
Buildings and leasehold improvements	15,164,858	13,257	-	3,716,854	18,894,969
Equipment	41,870,082	1,184,675	(1,809,179)	3,929,198	45,174,776
Construction in progress	4,489,000	8,077,332	-	(10,437,339)	2,128,993
	<u>61,525,690</u>	<u>9,275,264</u>	<u>(1,809,179)</u>	<u>-</u>	<u>68,991,775</u>
Less accumulated depreciation					
Land improvements	183	27,890	-	-	28,073
Buildings and leasehold improvements	2,947,931	894,566	-	-	3,842,497
Equipment	24,201,420	7,010,913	(1,565,739)	-	29,646,594
	<u>27,149,534</u>	<u>7,933,369</u>	<u>(1,565,739)</u>	<u>-</u>	<u>33,517,164</u>
Capital assets, net	<u>\$ 34,376,156</u>	<u>\$ 1,341,895</u>	<u>\$ (243,440)</u>	<u>\$ -</u>	<u>\$ 35,474,611</u>
	<b>2015</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Transfers</b>	<b>Ending Balance</b>
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>

**Oklahoma State University Medical Authority**  
**Notes to Financial Statements**  
**June 30, 2016 and 2015**

**Note 6: Long-Term Obligations**

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

	<b>2016</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deductions</b>	<b>Ending Balance</b>	<b>Current Portion</b>
Long-term debt					
Note payable, bank (A)	\$ 14,454,974	\$ -	\$ (1,807,351)	12,647,623	\$ 1,894,802
Capital lease obligations	310,816	1,163,073	(461,357)	1,012,532	252,732
Total long-term debt	14,765,790	1,163,073	(2,268,708)	13,660,155	2,147,534
Other long-term obligations	7,458,934	-	(1,149,038)	6,309,896	1,317,623
Total long-term obligations	<u>\$ 22,224,724</u>	<u>\$ 1,163,073</u>	<u>\$ (3,417,746)</u>	<u>\$ 19,970,051</u>	<u>\$ 3,465,157</u>

	<b>2015</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deductions</b>	<b>Ending Balance</b>	<b>Current Portion</b>
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	<u>\$ 26,647,937</u>	<u>\$ -</u>	<u>\$ (4,423,213)</u>	<u>\$ 22,224,724</u>	<u>\$ 3,381,259</u>

**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**  
**Notes to Financial Statements**  
**June 30, 2016 and 2015**

The debt service requirements as of June 30, 2016, are as follows:

<b>Year Ending June 30,</b>	<b>Total to be Paid</b>	<b>Principal</b>	<b>Interest</b>
2017	\$ 2,425,145	\$ 1,894,802	\$ 530,343
2018	2,425,145	1,974,359	450,786
2019	2,425,145	2,057,257	367,888
2020	2,425,145	2,143,635	281,510
2021	2,425,145	2,233,640	191,505
2022	2,441,651	2,343,930	97,721
	<u>\$ 14,567,376</u>	<u>\$ 12,647,623</u>	<u>\$ 1,919,753</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, 2016 and 2015, totaled approximately \$1,264,000 and \$2,564,000, net of accumulated depreciation of approximately \$93,000 and \$1,975,000, respectively. The following is a schedule by year of future minimum lease payments under the capital leases, including interest at rates of 4.44% to 7.97% together with the present value of the future minimum lease payments as of June 30, 2016:

<b>Year Ending June 30,</b>	
2017	\$ 268,924
2018	259,501
2019	259,501
2020	259,501
2021	64,875
Total minimum lease payments	<u>1,112,302</u>
Less amount representing interest	<u>99,770</u>
Present value of future minimum lease payments	<u>\$ 1,012,532</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**  
**June 30, 2016 and 2015**

**Note 7: Accounts Payable and Accrued Expenses**

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

	<b>2016</b>	<b>2015</b>
Payable to suppliers and contractors	\$ 8,455,515	\$ 8,768,361
Payable to employees (including payroll taxes and benefits)	3,824,684	4,153,627
Payable to former owner	1,317,623	1,297,220
Payable to patients (including third-party payers)	489,147	206,401
	\$ 14,086,969	\$ 14,425,609

**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, 2016 and 2015, 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 presumptive charity care policy allows the Authority to more accurately identify and record charity care services. As such, the amount of charity care increased in 2016, while the amount of provision for uncollectible accounts decreased by corresponding amounts. The Authority has estimated the cost associated with uncompensated care to uninsured and charity care patients for the years ended June 30, 2016 and 2015, to be approximately \$7,366,000 and \$7,202,000, respectively.

# Oklahoma State University Medical Authority

## Notes to Financial Statements

### June 30, 2016 and 2015

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 5.9% and 2.8% for 2016 and 5.8% and 2.8% for 2015, respectively. Contributions actually made by plan members and the Authority aggregated approximately \$1,553,000 and \$717,000 during 2016 and approximately \$1,557,000 and \$677,000 during 2015, respectively.

#### **Note 11: 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, 2016 and 2015, 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, 2016 and 2015**

**Note 12: Contract Management Services**

Effective May 1, 2014, the Trust began to be operated by Mercy Health Oklahoma Communities, Inc. (Mercy) under a management contract. The contract was 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 included 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 \$2,012,000 and \$1,704,000 for the years ended June 30, 2016 and 2015, respectively. At June 30, 2016 and 2015, the Authority owed Mercy approximately \$276,000 and \$108,000, respectively. Effective October 1, 2016, the Trust entered into a 10-year management contract with Saint Francis Health System.

**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 Authority in fiscal years 2016 and 2015.

***State of Oklahoma***

The State provided the Trust with approximately \$16,203,000 and \$12,270,000 in funds during the years ended June 30, 2016 and 2015, respectively, related to the UPL and graduate education programs. These state-operated programs include direct allocation of funds to the Authority in addition to statewide fund allocations.

The State also committed to 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.

***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, 2016 and 2015**

***Oklahoma Tobacco Settlement Endowment Trust***

In 2016, the Authority entered into a grant agreement with the Oklahoma Tobacco Settlement Endowment Trust (TSET) to support the Authority in implementing an Oklahoma hospital residency training program in various Oklahoma communities. The grant is for up to six years of funding. For the year ended June 30, 2016, the Authority received approximately \$562,000 under this grant agreement.

**Note 14: 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.

During the years ended June 30, 2016 and 2015, the Authority recorded revenue of approximately \$983,000 and \$1,209,000, respectively, from the Foundation. The contributions are recorded on the accompanying statements of revenues, expenses and changes in net position as follows:

	<b>2016</b>	<b>2015</b>
Gifts to purchase capital assets and other capital grants	\$ 717,749	\$ 211,790
Noncapital grants and gifts	99,802	136,745
Net patient service revenue	165,698	860,272
	\$ 983,249	\$ 1,208,807

The Foundation also received contributions from a local foundation and other charitable organizations in support of the Medical Center. At June 30, 2016 and 2015, the Foundation had net assets that were restricted for patient care or capital expenditures for the Authority of approximately \$764,000 and \$825,000, respectively.

**Note 15: 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, 2016 and 2015, the Authority owed the OSU Center for Health Sciences approximately \$1,248,000 and \$939,000, respectively.

**Oklahoma State University Medical Authority**  
**Notes to Financial Statements**  
**June 30, 2016 and 2015**

**Note 16: Combining Unit Information**

The following tables include condensed combining balance sheets information for the Authority and its component unit, OSUMT, as of June 30, 2016 and 2015:

	<b>June 30, 2016</b>			<b>Combined Balance</b>
	<b>Authority</b>	<b>OSUMT</b>	<b>Eliminations</b>	
<b>Assets</b>				
<b>Current Assets</b>	\$ 9,862,955	\$ 41,804,872	\$ (4,500,000)	\$ 47,167,827
<b>Capital Assets, Net</b>	-	35,474,611	-	35,474,611
<b>Other Assets</b>	-	360,000	-	360,000
Total assets	<u>\$ 9,862,955</u>	<u>\$ 77,639,483</u>	<u>\$ (4,500,000)</u>	<u>\$ 83,002,438</u>
<b>Liabilities and Net Position</b>				
<b>Current Liabilities</b>	\$ 4,500,000	\$ 18,034,675	\$ (4,500,000)	\$ 18,034,675
<b>Long-Term Liabilities</b>	-	16,504,894	-	16,504,894
Total liabilities	4,500,000	34,539,569	(4,500,000)	34,539,569
<b>Net Position</b>	<u>5,362,955</u>	<u>43,099,914</u>	<u>-</u>	<u>48,462,869</u>
Total liabilities and net position	<u>\$ 9,862,955</u>	<u>\$ 77,639,483</u>	<u>\$ (4,500,000)</u>	<u>\$ 83,002,438</u>

**Oklahoma State University Medical Authority**  
**Notes to Financial Statements**  
**June 30, 2016 and 2015**

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

**Oklahoma State University Medical Authority**  
**Notes to Financial Statements**  
**June 30, 2016 and 2015**

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, 2016 and 2015:

	<b>Year Ended June 30, 2016</b>			<b>Combined Balance</b>
	<b>Authority</b>	<b>OSUMT</b>	<b>Eliminations</b>	
<b>Operating Revenues</b>	\$ -	\$ 149,816,961	\$ (5,958,310)	\$ 143,858,651
<b>Operating Expenses</b>	<u>76,436</u>	<u>145,045,492</u>	<u>-</u>	<u>145,121,928</u>
<b>Operating Income (Loss)</b>	(76,436)	4,771,469	(5,958,310)	(1,263,277)
<b>Nonoperating Revenues (Expenses)</b>	<u>(1,157,000)</u>	<u>2,158,036</u>	<u>5,958,310</u>	<u>6,959,346</u>
<b>Excess (Deficiency) of Revenues over Expenses Before Capital Gifts and Grants</b>	(1,233,436)	6,929,505	-	5,696,069
<b>Gifts to Purchase Capital Assets and Other Capital Grants</b>	<u>-</u>	<u>717,749</u>	<u>-</u>	<u>717,749</u>
<b>Change in Net Position</b>	(1,233,436)	7,647,254	-	6,413,818
<b>Net Position, Beginning of Year</b>	<u>6,596,391</u>	<u>35,452,660</u>	<u>-</u>	<u>42,049,051</u>
<b>Net Position, End of Year</b>	<u>\$ 5,362,955</u>	<u>\$ 43,099,914</u>	<u>\$ -</u>	<u>\$ 48,462,869</u>

**Oklahoma State University Medical Authority**  
**Notes to Financial Statements**  
**June 30, 2016 and 2015**

	<b>Year Ended June 30, 2015</b>			<b>Combined Balance</b>
	<b>Authority</b>	<b>OSUMT</b>	<b>Eliminations</b>	
<b>Operating Revenues</b>	\$ -	\$ 153,879,507	\$ (2,858,181)	\$ 151,021,326
<b>Operating Expenses</b>	<u>929</u>	<u>147,723,623</u>	<u>-</u>	<u>147,724,552</u>
<b>Operating Income (Loss)</b>	(929)	6,155,884	(2,858,181)	3,296,774
<b>Nonoperating Revenues (Expenses)</b>	<u>(1,148,655)</u>	<u>1,987,466</u>	<u>2,858,181</u>	<u>3,696,992</u>
<b>Excess (Deficiency) of Revenues over Expenses Before Capital Gifts and Grants</b>	(1,149,584)	8,143,350	-	6,993,766
<b>Gifts to Purchase Capital Assets and Other Capital Grants</b>	<u>-</u>	<u>211,790</u>	<u>-</u>	<u>211,790</u>
<b>Change in Net Position</b>	(1,149,584)	8,355,140	-	7,205,556
<b>Net Position, Beginning of Year</b>	<u>7,745,975</u>	<u>27,097,520</u>	<u>-</u>	<u>34,843,495</u>
<b>Net Position, End of Year</b>	<u><u>\$ 6,596,391</u></u>	<u><u>\$ 35,452,660</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 42,049,051</u></u>

**Oklahoma State University Medical Authority**  
**Notes to Financial Statements**  
**June 30, 2016 and 2015**

The following tables include condensed combining statements of cash flows information for the Authority and its component unit for the years ended June 30, 2016 and 2015:

	<b>Year Ended June 30, 2016</b>			<b>Combined Balance</b>
	<b>Authority</b>	<b>OSUMT</b>	<b>Eliminations</b>	
<b>Net Cash Provided by (Used in) Operating Activities</b>	\$ (240,426)	\$ 4,248,942	\$ -	\$ 4,008,516
<b>Net Cash Provided by Noncapital Financing Activities</b>	-	5,087,441	-	5,087,441
<b>Net Cash Used in Capital and Related Financing Activities</b>	-	(8,907,757)	-	(8,907,757)
<b>Net Cash Provided by Investing Activities</b>	-	28,692	-	28,692
<b>Change in Cash and Cash Equivalents</b>	(240,426)	457,318	-	216,892
<b>Cash and Cash Equivalents, Beginning of Year</b>	7,505,549	13,933,921	-	21,439,470
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 7,265,123</u>	<u>\$ 14,391,239</u>	<u>\$ -</u>	<u>\$ 21,656,362</u>

**Oklahoma State University Medical Authority**  
**Notes to Financial Statements**  
**June 30, 2016 and 2015**

	<b>Year Ended June 30, 2015</b>			<b>Combined Balance</b>
	<b>Authority</b>	<b>OSUMT</b>	<b>Eliminations</b>	
<b>Net Cash Provided by (Used in) Operating Activities</b>	\$ (240,426)	\$ 8,243,274	\$ -	\$ 8,002,848
<b>Net Cash Provided by Noncapital Financing Activities</b>	-	4,347,271	-	4,347,271
<b>Net Cash Used in Capital and Related Financing Activities</b>	-	(7,298,214)	-	(7,298,214)
<b>Net Cash Provided by Investing Activities</b>	<u>-</u>	<u>4,062</u>	<u>-</u>	<u>4,062</u>
<b>Change in Cash and Cash Equivalents</b>	(240,426)	5,296,393	-	5,055,967
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>7,745,975</u>	<u>8,637,528</u>	<u>-</u>	<u>16,383,503</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u><u>\$ 7,505,549</u></u>	<u><u>\$ 13,933,921</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 21,439,470</u></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, 2016, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 28, 2016.

***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 of the financial statements, 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.

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

Our consideration of internal control 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 or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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*.

We also noted certain matters that we reported to the Authority's management in a separate letter dated October 28, 2016.

### ***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  
October 28, 2016